

Report of the Auditor General on Head 331 – Department of Divineguma Development - Year 2015

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 331 – Department of Divineguma 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 Director General of the Department on 17 June 2016. 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 Responsibilities 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 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

(a) Total Provision and Expenditure

The total net provision made to the Department amounted to Rs.54,759.85 million and a sum of Rs.52,330.09 million therefrom had been utilized by the end of the year under review. Accordingly, a sum of Rs.2,429.76 or 4.44 per cent of the total net provision had been saved. Particulars are given below.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	53,439.90	51,306.09	2,133.81	3.99
Capital	1,319.95	1,024.00	295.95	22.42
Total	54,759.85	52,330.09	2,429.76	4.44

(b) Utilisation of provisions given by other Ministries

Provisions of Rs.1,363.4 million had been given by the Ministry of Housing and Samurdhi for various activities to the Department and a sum of Rs.1,182.0 million had been utilized by the end of the year under review. Accordingly, there was a saving of Rs.181.4 million or 13.30 per cent of the provisions made.

2.2 Advances Accounts

2.2.1 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament and actual amounts of Advances to Public Officers Account Item No. 33101 relating to the Department are given below.

<u>Expenditure</u>		<u>Receipts</u>		<u>Debit Balance</u>	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
235.0	221.5	90.0	206.7	100.0	14.8

2.4 Imprest Account

The balance of the Imprest Account No.7002/0000/00/0431/0015/000 of the Department as at 31 December 2015 amounted to Rs.1,019.8 million.

2.5 General Deposit Accounts

The balances of 3 General Deposit Accounts under the Department as at 31 December 2015 totalled Rs.2600.0 million. Particulars are given below.

Deposit Account Number	Balance as at 31 December 2015
	Rs.Millions
6000/0000/00/0015/0099/000	2,449.4
6000/0000/00/0015/0205/000	150.4
6000/0000/00/0015/0160/000	0.2
Total	2,600.0

2.6 Audit Observation

The Appropriation Account and the Reconciliation Statement of the Department of Divineguma Development for the year ended 31 December 2015 had been satisfactorily prepared subject to the Audit Observations appearing in the Management Audit Report referred in Paragraph 1.1 above. Out of the Audit Observations included in the Management Audit Report, material and significant Audit Observations appear in the Paragraph 3 of this report.

3. Material and Significant Audit Observations

3.1 Non – maintenance of Books and Records

It was observed during the course of audit test checks that the Department had not maintained certain register referred to below whilst certain other registers had not been maintained in the updated manner.

Type of Registers	Relevant Regulation	Observations
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(a) Register of Official Telephones	Appendix 26 under Financial Regulation 845 (1)	Not maintained.
(b) Security Register	Financial Regulation 891 (1)	Not maintained.
(c) Inventory of Electrical Feltings	Financial Regulation 454 (2)	Not maintained.
(d) Register of Losses	Financial Regulation 110	Not maintained.
(e) Register of Motor Vehicles	Financial Regulations 802 and 1647 (c) and (e)	Not maintained.
(f) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978.	Not updated.
(g) Register of Fixed Assets for Computers Accessories and Software.	Treasury Circular No.IAI 2002/02 dated 28 November 2002.	Not updated.

3.2 Lack of Evidence for Audit

Files in respect of the land and buildings of the District Office in which Circuit Bungalow of Monaragala is situated and the land in which the Southern Development Finance Company is situated were not made available for audit. The values of such properties amounted to Rs.27.90 million and Rs.11.96 million respectively.

3.3 Replies to Audit Queries

Replies to 17 audit queries issued to the Department had not been furnished and the period of delays ranged from 2 months to 15 months. The value of computable transactions relating to those queries amounted to Rs.2009.34 million.

3.4 Appropriation Account

3.4.1 Budgetary Variance

The following observations are made.

- (a) The entire provision totalling Rs.11.20 million made for 2 Objects had been saved without being utilized.
- (b) Excess provisions had been made for 24 Objects, and as such a sum of Rs.272.87 million had been saved after the utilisation of the provision and those ranged from 40 per cent to 95 per cent of the net provisions made for those Objects.

3.5 Imprests Account

Even though the imprest balance settled by the Divineguma Community Based Banks and District Offices in March and April 2016 amounted to Rs.24.69 million, the Department had delayed the settlement to the Treasury even by 07 July 2016.

3.6 General Deposit Account

The following observations are made.

- (a) A difference of Rs.14.96 million was observed between the Treasury Computer Printouts and the Registers of Deposits relating to the District Offices and the Statement of Individual Balances relating thereto was not made available for audit.
- (b) Even though money for the payment of Samurdhi subsidies had been obtained from the Investments of Bank Finance Sector a sum of Rs.2449.50 million which had not been settled from that money had been retained in the General Deposit Account.

3.7 Reconciliation Statement of the Advances to Public Officers Account

The following observations were made during the course of audit test checks.

- (a) According to the information made available for audit, the outstanding balances recoverable from 67 officers who had gone on transfer, deceased, retired and dismissed from service as at 31 December 2015 totalled Rs.4,372,194. Those balances had remained outstanding for periods ranging from 01 month to 21 years. The Department had failed to recover those outstanding balances.
- (b) The loan balance receivable according to the financial statements of the Sri Lanka Samurdhi Authority as at 31 December 2013 amounted to Rs.130.16 million. and the particulars of follow up action taken to recover that loan balance were not made available for audit.

3.8 Good Governance and Accountability

3.8.1 Internal Audit

The following observations are made.

- (a) Replies to 1,485 internal audit queries issued in respect of the years 2014 and 2015 had not been presented and an adequate follow up action in respect of those queries had not been taken.
- (b) Internal Audit functions could not be carried out in accordance with the Internal Audit Timetable for the year 2015. District Secretariats, Divisional Secretariats, Divineguma Community Based Banks and Bank Societies and 3 Funds, including the Social Security Fund had not been subjected to internal audit. Furthermore, a sufficient internal audit of the Head Office had not been carried out.

3.8.2 Audit and Management Committee

Audit and Management Committee meetings should be held at least once a quarter. Nevertheless, only 2 meetings of the Audit and Management Committee had been held, in the year under review.

3.9 Assets Management

The following weaknesses were observed at the Audit test check carried out in respect of assets of the Department.

- (a) Even though the total value of assets included in the non-current assets included in the Report on Non-moving Assets of the Appropriation Account for the year under review amounted to Rs.1235.21 million whereas the balance according to the related schedule amounted to Rs.1121.16 million thus showing a difference of Rs.114.05 million. The Director General had explained that the reason for the difference was that the vested institutions had not maintained proper Registers of Assets.

(b) Idle and Underutilised Assets

A maintenance expenditure of Rs.1,618,329 had been incurred for the 3 storeyed Head Office building of the Sri Lanka Southern Development Authority situated on a land without the unencumbered tenure, in which a Training Centre is maintained. As action had not been taken to conduct sufficient training programs that building, the equipment and the staff had been underutilised. The Director General Informed the Audit that “action is being taken to vest this building to the Ministry of Southern Development in the future”.

(c) Conduct of Annual Board of Surveys

The following observations are made.

- (i) Action had not been taken to dispose of the unsuitable goods reported in the Board of Survey Reports. The value of the disposable stock in the Revolving Bank Stationery Fund in the years 2014 and 2015 amounted to Rs.1,187,288 and Rs.1,207,793 respectively. The value of disposable stock reported in the other Board of Survey Reports of the Department had not been computed.
- (ii) Stock shortages and excesses in the Bank Stationery Revolving Fund in the years 2014 and 2015 amounted to Rs.466,185, Rs.384,063 and Rs.376,937, Rs.132,676 respectively. Action in terms of Financial Regulation had not been taken in that connection.

(d) Assets given to External Parties

The following observations are made.

- (i) Without obtaining the approval of the Secretary to the Ministry, 23 motor vehicles belonging to the Department had been given to 6 Government Institutions and a private party. The Department had spent a total sum of Rs.816,979, comprising sums of Rs.242,422 and Rs.575,557 in the preceding year and the year under review respectively for the maintenance of motor vehicles released to two Ministries.
- (ii) Action had not been taken to vest in the Department 9 properties of lands and buildings which had been leased out by the Sri Lanka Southern Development Authority and to enter into new lease agreements with lessees. Further, though the ownership of six properties, deemed as owned by the Authority and leased out, had been claimed by another Public Institution, action had not been taken to settle the matter.
- (iii) According to the books of the Department sum of Rs.1,671,898 was due as arrears of lease rental and penalties thereon as at the end of the year in respect of 11 properties leased out by the Sri Lanka Southern Development Authority.

(e) Utilisation of Assets not vested

The following observations are made.

- (i) As the Registers of Fixed Assets had not been maintained in terms of the Treasury Circulars by the institutions amalgamated to the Department, it could not be ensured whether all assets valued at Rs.1526.55 million included in the last financial statements prepared had been correctly vested.
- (ii) Transfer of 128 motor vehicles belonged to the institutions amalgamated to the Department had not been finalised.
- (iii) Even though files relating to the 10 motor cycles of the Rural Development Studies and Training Research Institute had been taken over motor cycles had not been physically taken over.
- (iv) Lease rental of Rs.38,077,500 had been paid for the land at Denzil Kobbekaduwa Mawatha from the year 2004 to the year 2011 by the Sri Lanka Samudri Authority. As the constructions had not been carried according to the lease agreement the lease agreement had been terminated and a store building had been constructed during that period. As the Department had failed to construct the Head Office of the Department of Divineguma Development in that land by extending the lease period, a monthly rental of Rs.4.25 million had to be paid to the Sethsiripaya Premises where the Department had been established. The total building rental so paid by the end of the year under review amounted to Rs.571.07 million.

(f) Unsettled Liabilities

The following observations are made.

- (i) The value of liabilities unsettled by the Department as at the end of the year under review amounted to Rs.8,428.36 million. Of that, liabilities of Rs.8415.78 million existed over periods ranging from 1 year to 3 years and action had not been taken to settled them.
- (ii) Liabilities amounting to Rs.5,427.89 million had been committed in excess of the savings after the utilisation of provision made for 3 Objects.
- (iii) A liability for Rs.2,992.78 million had been committed in the year 2014 for the implementation of “Isurumath Niwahanak” program. Even though it was stated in the Appropriation Account as a liability of the year under review as a liability, of the year under review provision to incur such liability had not been made to the Department from the Annual Budget Estimates. The Director General informed the Audit that a Cabinet Memorandum had been presented for the payment of the above commitments.

3.10 Non – compliances

Non – compliance with Laws, Rules and Regulations

Non- compliance with the provisions in the laws, rules and regulations observed at audit test checks are analysed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
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(a) Divineguma Act, No.1 of 2013	Rs.	
(i) Section 9	-	Divineguma Community Based Organisations with voluntary participation by Divineguma beneficiaries had not been established.
(ii) Section 34	-	The Divineguma Community Based Main Bank Society, consisting of all Divineguma Community Based Banks and all Divineguma Community Based Bank Societies had not been established.
(iii) Section 36	-	A Divineguma Development Fund had not been established for functions provided in the Act.
(iv) Section 37	-	The Divineguma Revolving Fund to be established by crediting all money of the Authorities which had been amalgamated to the Department of Divineguma Development had not been established.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 103 (1)	668,325	Although the preliminary and the final reports of the lorry met with accidents in the year 2011 had been presented, action had not been taken to recover, the loss or to write off.

- (ii) Financial Regulation 763 - Stores procedure in respect of stores and Stationery Revolving Fund in the Head Office had not been formulated.
- (iii) Financial Regulation 880 - Security deposits from any officers who are in the custody of Government assets had not been obtained in terms of the Public Officers Security Ordinance.
- (c) Public Administration Circulars

- (i) Circular No.41/90 of 10 October 1990
Paragraph 2.11 The fuel consumption of motor vehicles belonging to the Department had not been tested once in every 6 months.
- (ii) Circular No.26/92 (1) of 03 August 1994 - Except the motor vehicles allocated to officers, action had not been taken to stencil the Government emblem and the name of Department.

3.10.2 Non- compliance with Tax Requirements

Non- compliance with tax requirements observed at audit test check are given below.

- (a) In terms of Procurement Guideline 5.4.12 of the Government Procurement Guidelines, particulars of payment of Value Added Tax should be informed to the Commissioner General of Inland with a copy to the Auditor General According to the audit test check action had not been so taken in respect of the Value Added Tax amounting to Rs.5,771,225 paid in the year under review.
- (b) The Sri Lanka Samurdhi Authority had not paid luxury and semi - luxury dual purpose tax for the Motor Vehicles used. However, the Department had paid that and penalties thereon amounting to Rs.1,284,000.

3.11 Weaknesses in operation Bank Accounts

The following observations are made.

- (a) There were long delays in the preparation of Bank Reconciliation Statements of the Department's Official Bank Account and the Stationery Revolving Fund Bank Account in terms of Financial Regulation 395 (d).
- (b) According to the Bank Statement of the Official Bank Current Account, the balance as at 31 December 2015 amounted to Rs.715,750,526. However the value of 682 cheques issued but not presented to the Bank for payments amounted to Rs.1,055,870,433 and as such the Bank balance was not sufficient to settle those

issued cheques. Those unrepresented cheques included 33 cheques valued at Rs.122,787 remaining unrepresented for 06 months or more and 13 cancelled cheques valued at Rs.1,329,737, and action in terms Financial Regulation 396 (d) had not been taken even by 31 December 2015.

- (c) Unidentified Bank credits totalling Rs.5,323,468 unidentified Bank debts totalling Rs.31,554,687 and 9 cheques valued at Rs.265,333 deposited but not realised for periods ranging from 01 month to 8 months had been shown in Bank Reconciliation Statements prepared as at 31 December 2015.
- (d) Even though the Official Bank Account of the Sri Lanka Samurdhi Authority amalgamate to the Department had been settled as at 21 September 2015 the balances of Rs.3,622,105 in Bank Accounts of District Secretariats and 42 Divisional Secretariats to which provision had been given from that account had been settled subsequently. As such it was observed that there was room for misuse of those Bank Accounts.

3.12 Transactions of Contentious Nature

Even though a difference was not observed between the physical stock of the stores of Stationery Revolving Fund in the Physical Stock Verification Report and the book balance, according to the computation of the audit a stock balance of 177,400 items of 5 categories of stationery had been under - posted in the stock records had been under posted as at 31 December 2015 out its value amounted to Rs.1,053,802.

3.13 Irregular Transactions

Certain transactions carried out by the Department had been devoid of regularity. Certain instances so observed are as follows.

(a) Deviation from Government Procurement Guidelines

The following weaknesses were observed in respect of procurement made by the District Divineguma Offices of the Department.

- (i) Action in terms of Guidelines 2.11.1, 4.3, 6.33, 5.1 and 5.3 of the Government Procurement Guidelines had not been taken in the purchase 20 types of goods valued at Rs.4,098,577 by the Seethawaka Divisional Secretariat for the Divineguma Livelihood Development Projects.
- (ii) Deviating from the Guideline 3.9.1 of the Government Procurement Guidelines, the Pitipana and Neboda Divineguma Community Board Corps had awarded the construction of Bank buildings valued at the Rs.2.55 million and Rs.2.50 million respectively, which exceeded the estimated limit of Rs.2 million to 3 Samurdhi Corps.

(b) Transactions without Authority

The following observations are made.

- (i) Even though the approval of the District Divineguma Additional Director General/ District Divineguma Director should be obtained for Divineguma Livelihood Development Projects implemented in Districts the Divisional Secretariat, Seethawaka had purchased 30 Juki machines valued at Rs.870,000 without such approval.
- (ii) Motor Vehicles had been repaired in 37 instances without being examined by a Technical Officer and Rs.1.16 million had been paid for the repairs approved beyond the limits approved for the Department.

3.14 Uneconomic Transactions

Even though Sri Lanka Southern Development Authority had deposited a sum of Rs.2.65 million for the acquisition of two lands action had not been taken to acquire those lands or to settle the deposit.

3.15 Management Weaknesses

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

- (a) Out of the loans granted to 105 beneficiaries for the implementation of Livelihood Development Projects in the Seethawaka Divisional Secretariat areas in the years 2013 and 2014 a sum of Rs.3.16 million had become irrecoverable dormant balances.
- (b) Out of the money sent to the Divineguma Banks for the payment of subsidies based on the maximum report, the correct subsidy expenditure had not been computed by monthly reconciling the actual subsidy expenditure, additional imprests and the refunded balance money. Accordingly, it was not ensured that the balance money after the payment of the subsidies had been sent to the Head Office by all Banks. The permission given to account a sum of Rs.32.39 million as expenditure of the year 2016 by a transfer note in July 2016 had revealed that the expenditure of the year under review amounting to Rs.39,994,330 reported to the Treasury was not correct.
- (c) The Housing Development Lottery to be drawn monthly with the objective of giving a permanent solution for beneficiaries housing problem, had been drawn simultaneously by using an information system not updated in the years 2012 and 2013. As a result, a sum of Rs.22.65 million could not be awarded to 151 beneficiaries who won the prizes as their information could not be found.
- (d) Loans of Rs.1,159.52 million had been granted by the end of the year under review under the Ranawiru Housing Loan Scheme to 8,850 Labourers in 23 Districts to build houses. Of these loans, the repayment of loans amounting to Rs.132.68 million granted to 1625 Labourers had been defaulted. It was not ensured whether there was a

possibility of settling the outstanding loans from the deposit money of Rs.100 million.

- (e) Tiles had been purchased during the year under review by incurring an expenditure of Rs.9.77 million from selected suppliers deviating from the Government Procurement Guidelines using the provisions granted by the Ministry of Economic Development. At the end of the year this program had been ceased halfway. Further it was observed in certain instances that as a result of issuing tiles to beneficiaries who could not afford to build a house they were unable to use the tiles.
- (f) Outside the scope of the Department and without Treasury approval, loans of Rs.9.69 million had been granted by the Divineguma Community Based Bank Societies in the years 2014 and 2015 to 194 members of Pradeshiya Sabha for the purchase of motor cycles. Of these loans a sum of Rs.3.09 million had to be further recoverable from 124 members.
- (g) Action had not been taken to acquire Panikanda Tea Factory Land 01 acre in extent belonging to the Southern Development Authority situated in the Kolonna Divisional Secretariat area in the Ratnapura District by paying a sum of Rs.2.98 million, due to be paid for the acquisition of the Land.
- (h) Even though the approval had been granted to the Southern Development Authority to acquire lands, 110 acres in extent in the Matara and Galle Districts by Notification Published in the Gazette No.980/22 dated 17 June 1997, action had not been taken to acquire those lands.
- (i) The Storekeeper in charge of the Stationery Revolving Fund had retired in the year 2014 on the payment of compensation and gratuities without handing over the stationery stock and stock books to the new Storekeeper. Action had been taken to take over the stores by the new Storekeeper without ensuring the correctness of the value of stationery which had been computed and documented at a value of Rs.1.87 million at that date.

3.16 Human Resources Management

(a) Approved Cadre and Actual Cadre

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

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess Cadre
(i)	Senior Level	665	86	579	-
(ii)	Tertiary Level	245	36	209	-
(iii)	Secondary Level	31,092	23,606	7,486	-
(iv)	Primary Level	762	210	552	-
(v)	Others (Casual/ Temporary/ Contract Basis)	-	30	-	30
	Total	32,764	23,968	8,826	30

The following observations are made.

- (i) In view of the delay in obtaining the approval for the new Service Minute of the Department the approved recruitments and promotions had been delayed and as such it had not been possible to fill 8,826 vacancies that existed by the end of the year under review.
 - (ii) Of the staff grade posts, 87 per cent had fallen vacant and the part of these posts had been recruited on covering of duties basis.
 - (iii) Even though the an overall staff of 423 including 327 Senior Level Officers under 17 designations for 5 Zonal Offices had been approved on 19 November 2014 action had not been taken to revise the cadre with the cancellation of Zonal Offices since the beginning of the year 2015.
- (b) The Department had released 15 Secondary Level employees to various Ministries and the Ministerial Staff.
 - (c) Necessary action had not been taken in respect of problems in the examination certificates of Divineguma Development Officers.
 - (d) Despite the National Salaries and Cadre Commission informing by letter dated 13 May 2011 stating that recruitments and promotions should not be made and deviating from the instructions given by the Ministry of Finance in that connection, one officer had been promoted to Post of an Assistant Director since 03 August 2011 without following the recruitment procedure.