

Report of the Auditor General on Head 140 – Ministry of Hill Country New Villages, Infrastructure Facilities and Community Development - Year 2016

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 140 – Ministry of Hill Country New Villages, Infrastructure Facilities and Community Development for the year ended 31 December 2016, 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 Secretary to the Ministry on 10 November 2017. The audit observations, comments and findings on 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.

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, Public Finance and Administrative Regulations. This responsibility includes; designing, implementing and maintaining internal control necessary to enable 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.1,797.00 million and out of that, Rs.1,284.09 million had been utilized by the end of the year under review. Accordingly, savings out of the net provisions of the Ministry amounted to Rs.512.91 million or 28.54 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a percentage of net provisions
	Net Provisions	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	223.42	189.12	34.30	15.35
Capital	1,573.58	1,094.97	478.61	30.42
Total	1,797.00	1,284.09	512.91	28.54

2.2 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account Item No. 14001 relating to the Ministry and the actual amounts are shown 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
14.00	10.76	6.00	6.51	30.00	21.14

2.3 General Deposit Accounts

The balances of 02 Deposit Accounts of the Ministry as at 31 December 2016 totalled Rs. 35.03 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2016
	Rs. Millions
6000/0000/00/0016/0082/000	35.02
6000/0000/00/0013/0088/000	0.01
Total	35.03

2.4 Audit Observation

The Appropriation Account and Reconciliation Statements of the Ministry of Hill Country New Villages, Infrastructure Facilities and Community Development for the year ended 31 December 2016 have been prepared satisfactorily, subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1. Out of those observations, the material and significant audit observations appear in paragraph 3.

3. Material and Significant Audit Observations

3.1 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not maintained the following registers while the Register of Vehicles had not been maintained in the proper and updated manner.

Type of Register	Related Regulation	Observations
-----	-----	-----
(a) Register of Liabilities	Financial Regulation 214	Not maintained.
(b) Security Register	Financial Regulation 891 (1)	Not maintained.
(c) Register of Vehicles	Financial Regulation 1647 (e)	Not updated.

3.2 Appropriation Account

Budgetary Variance

The following observations is made.

Excess provision had been made for 11 Objects and as such the savings, after the utilization of provisions, ranged between 11 per cent and 25 per cent of the net provisions relating to the respective Objects.

3.3 Reconciliation Statement on Advances to Public Officers' Account

The following observations are made during the course of audit test checks carried out in respect of the Reconciliation Statement as at 31 December 2016 on the Advances to Public Officers' Account Item No.14001.

Steps had not been taken even up to 19 June 2017 to recover the sum of Rs.107,896 from a KKS who had vacated the post on 30 October 2014.

3.4 Good Governance and Accountability

3.4.1 Internal Audit

The following observations are made.

- (a) According to Circular No. DMA/AMC/2016/05/05 of 09 December 2015 of the Management Audit Department, special attention should be paid to development purposes by the Internal Audit Unit. However, out of the constructions of Rs.927 million, only constructions valued at Rs.147 million representing 16 per cent had been audited.
- (b) The Internal Audit Unit had consisted of only three officers including the Chief Internal Auditor. An adequate number of officers with knowledge and training in accounts and audit for strengthening the Internal Audit Unit had not been attached.

3.4.2 Assets Management

(a) Idle and Underutilized Assets

It was observed during the course of audit test checks that certain assets categorized below had been either idle or underutilized.

(i) The motor cycle purchased by spending a sum of Rs.179,500 on 8 March 2016 had remained idle even by 25 May 2017 without being made use of.

(ii) Two motor vehicles valued at Rs.4.5 million by the Insurance Corporation of Sri Lanka as at 30 September 2016 had remained idle without being repaired from 06 January and 25 August 2016 respectively up to 31 July 2017.

(b) Conducting Annual Boards of Survey

Action on the excess and shortages pointed out and the other recommendations made in the Reports of the Board of Survey for the year 2016 had not been taken in terms of the Financial Regulations.

3.5 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 given below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
-----	-----	-----
	Rs. Millions	
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(i) Financial Regulation 702 (3)	850.81	Even though the Ministry should sign all contracts in triplicate and one copy forwarded to the Auditor General, it had not been so done.
(ii) Financial Regulations 756 and 757	173.05	Even though an annual survey should be carried out in respect of motor vehicles, it had not been so done.

(iii) Financial Regulation 1646

-

Action had not been taken to forward the originals of the running charts and monthly performance summaries relating to 9 and 6 motor vehicles of the vehicle pool of the Ministry for the whole year and from 5 to 9 months respectively to the Auditor General.

3.6 Foreign Aid Projects

Utilization of Provisions granted as Foreign Aid

According to paragraph 2 of State Accounts Circular No.30/94 of 20 April 1994, action should be taken through the Director General of External Resources in respect of accounting of foreign aid transactions. However, a sum totalling Rs.3,498,900 received from the United Nations Development Programme on 29 December 2015 and 09 March 2016 had been deposited directly in the General Deposit Account of the Ministry and that entire amount had been spent in the year under review.

3.7 Implementation of Projects under Domestic Financing

Projects of the Plantation Human Development Trust

Government Procurement Guidelines had not been followed for functions of 03 projects of the Plantation Human Development Trust implemented under this Ministry. The sum paid to the Plantation Human Development Trust for those projects in 3 preceding years and in the year under review amounts to Rs.2,107.80 million. The following observations are made in this connection.

- (a) A sum of Rs.850.81 million had been paid in the year under review to this Trust, which is not accepted as a Government Institute. In addition to that, commitments had been incurred for a sum of Rs.343.13 million. Accordingly, out of the total provision of Rs.1,518.00 million in the year under review for the above three projects, 78.6 per cent alone had been released to the Plantation Human Development Trust for the year under review. In providing money to this Plantation Human Development Trust, the Ministry had not entered into any agreement whatsoever with that Trust.

(b) Contract Administration in the Ministry in respect of Projects executed by the Plantation Human Development Trust

The following observations are made.

- (i) According to Guideline 8.12.1 (a) of the Procurement Guidelines, the Procurement Entity (Ministry) shall be responsible for ensuring supervision and assessment of the execution of all works and the quality of services supplied before taking over houses and the quality of works executed should be checked independently. Nevertheless, it was observed during the course of audit test checks that it is not carried out on all activities such as supply of consultancy services, selection of contractors and supervision relating to contracts of projects executed by the Plantation Human Development Trust.
- (ii) In terms of Guideline 3.9.1 of the Procurement Guidelines and the Procurement Manual, the total value of the contracts awarded to Co-operative Societies should not exceed Rs.2 million and the total number of contracts executed by a society at a given time should not exceed three. However, it was indicated in the Guidelines on Implementation of Projects under the New Life Estate Housing Development Programme that constructions should be carried out through the Estate Worker Housing Co-operative Society by the Plantation Human Development Trust. As such, it was observed that it had been contrary to the Government Procurement Guidelines.

(c) Recovery of Loans from Beneficiaries and Crediting to the Treasury

The following observations are made.

- (i) According to paragraph 9.2 of the Guidelines on Implementation of Projects under the New Life Estate Housing Development Programme, the recovery of loans from beneficiaries should commence from the third month after the commencement of housing projects. The Ministry had paid a sum of Rs.435.09 million under the New Life Estate Housing Development Programme from the year 2011 up to the beginning of the year 2016 and a sum of Rs.7.85 million under the Green Gold Housing Programme in the year 2015 to the Plantation Human Development Trust. Out of them, the loans recoverable for new livelihood estate houses and Haritha Ran amounted to Rs.232.34 million and Rs.4.11 million respectively. Only a sum of Rs.10.15 million or 4.29 per cent of the amount recoverable as at that date had been credited to the General Treasury as at 31 December 2016. As such, in considering the average of recovery of loans, it had not been carried out under proper supervision and as a result, it was observed that the recovery of loans had been at a weak level.
- (ii) In terms of paragraph 9.2 of Guidelines mentioned in paragraph (1) above, it had been indicated that it is the responsibility of the estate supervision and the Estate Workers' Housing Co-operative Society to get down the loan amounts recovered

monthly and to send them directly to the Ministry to be credited to the Government Consolidated Fund before the 15th of the following month. However, sums of Rs.23.26 million and Rs.37.75 million had not been sent to the Ministry in the years 2015 and 2016 respectively.

(d) Abandoning of Project Activities halfway

The number of houses continued as at 31 December 2015 stood at 570 under the New Livelihood Estate Houses Development Programme and out of them, 74 houses had not been completed. Out of those 74 houses, 45 housing units under the Isla-Isla Housing Programme in the Kegalle Zone had been cancelled and even though it had been indicated that payments had not been made, a sum of Rs.5.85 million had been paid therefor. Moreover, it had been indicated in the replies that the sum of Rs.2.65 million paid for the remaining 29 houses had been set off for other projects. Nevertheless, evidence had not been made available in confirming so.

(e) Delays in the execution of Projects

A sum of Rs.11.88 million had been provided to the Plantation Human Development Trust as 20 per cent advances for 26 activities in the year 2016 for constructing houses and providing infrastructure facilities under the Estate Housing Development Programme. Action had not been taken even by 31 December 2016 to commence those projects.

(f) Payments and Maintenance of Books by the Ministry for Projects executed by the Plantation Human Development Trust

The following matters are observed.

- (i) Seven hundred and eight cheques valued at Rs.653 million written in favour of Plantation Human Development Trust in the year under review had been given to the officers of the Development Division of the Ministry without giving directly to the payee after confirming the identity.
- (ii) A register including details of identity card numbers and initials had not been maintained for posting and handing over the cheques again, obtained by the Development Division on behalf of the Plantation Human Development Trust.
- (iii) According to a sample test of three months, receipts had not been obtained from the Plantation Human Development Trust in terms of Financial Regulation 264 for acknowledgement of 375 cheques out of 378 cheques, representing 99 per cent.
- (iv) In terms of Financial Regulations 501 (c) and 502 (b), action had not been taken to maintain books for recording all transactions relating to supervision in respect of accounting for loans provided to the public, part payments of claims and to ensure full recovery in terms of the conditions specified, to promptly collect amounts due and to make satisfactory progress in the working of the relevant activity.

3.8 Performance

(a) Key Functions not executed adequately

The Ministry had not executed the key functions and the matters observed thereon are as follows.

Even though priority should be given to providing houses for persons displaced due to landslides, action had not been taken even up to July 2017 to provide houses to the areas of Mawanella, Bulathsinhala and Kudaligama affected by landslides.

(b) Other Observations

- (i) The number of new life estate houses to be completed from the year 2011 up to the year 2016 under the New life Estate Housing Development Programme stood at 1,354. The number of houses that had been completed by 31 December 2016 stood at 1,126. As such, it was observed that the progress was 83.16 per cent.
- (ii) Fifteen thousand houses had been proposed to be constructed under 3 housing projects under the Green Gold Housing Programme. The progress therein as at 31 December 2016 was as follows.
 - * It had been proposed to commence and complete 6,500 houses from the year 2015 up to the year 2020 under the Ministry according to the plan implemented for the Green Gold Housing Programme and 1,430 houses had been commenced by 31 December 2016 under this programme. Even though 937 houses were due to be completed as at 31 December 2016, only 513 houses had been completed. The progress therein was 54.75 per cent.
 - * Four thousand houses were proposed to be constructed from the year 2016 up to the year 2020 under the Indian Grant Assisted Housing Programme and 1,100 out of them were proposed to be commenced in the year 2016. However, only 134 houses had been commenced even by July 2017.
 - * It had been proposed to construct 4,500 houses from the year 2016 up to the year 2020 under the National Housing Development Authority, through that Authority and bank loans and even though 400 houses had been estimated to be constructed in the year 2016, no constructions whatsoever had been carried out therein.

3.9 Losses and Damage

The following observation is made.

Action had not been taken in terms of Financial Regulations 103 (1) (b), 104 (3) and 104 (4) in respect of an allocated motor vehicle that met with an accident on 22 August 2016. The estimate for its repairs had been Rs.1.03 million. Moreover, it was observed that this motor vehicle remains in a private garage up to 21 August 2017.

3.10 Management Weaknesses

The following observations are made.

The Cabinet of Ministers had taken a decision at the meeting held on 24 August 2000 to deposit a sum of Rs.one million in a state bank for setting up a Revolving Fund to provide loans to the estate youth with the objective of providing self –employment. The following observations are made in respect of implementing this project.

- (i) According to the agreement entered into between the bank and the Ministry, loans should be granted with security according to the rules and regulations of the bank. The total loan amount granted from the day of the inception of the Fund up to the year 2010 amounted to Rs.9.21 million. The amount recovered as at 30 January 2013 was Rs.4.22 million, that is 46 per cent of the loan granted. Accordingly, it was observed that the effort taken by the bank in the recovery of loans had been inadequate and that the relevant Ministry had not carried out a proper supervision.
- (ii) A new agreement had been entered into with the bank on 26 January 2016 for the balance remained as at that date amounting to Rs.8,758,443 under the second phase. Accordingly, action had not been taken in terms of Financial Regulations 501 (c) and 502 (b) so as to properly supervise the recovery of loans granted to beneficiaries.

3.11 Human Resources Management

----- Approved Cadre and Actual Cadre -----

The position on the cadre as at 31 December 2016 had been as follows.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
	-----	-----	-----	-----	-----
(i)	Senior Level	16	13	03	
(ii)	Primary Level	24	19	05	
(iii)	Secondary Level	294	209	85	
(iv)	Tertiary Level	04	01	03	
(v)	Other (Casual/Temporary/Contract Basis)		01	-	01
		-----	-----	-----	-----
	Total	338	243	96	01
		=====	=====	=====	=====

The following observation is made.

Out of the posts with the above vacancies, the post of Director Engineering included in two vacancies in senior level and out of the posts in Primary Level, vacancies in 3 posts of Technical Officer had not been fulfilled. As such, it was observed that this had attributed to the improper supervision in the year 2016 in respect of the construction projects carried out in this Ministry. Three posts of Technical Officer had been recruited on 15 August 2017 on contract basis.