

## **Report of the Auditor General on Head 331 - Divineguma Development Department - Year 2016**

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The audit of the Appropriation Account and the Reconciliation Statements including the financial records, reconciliation statements, books, registers and other records of the Divineguma Development Department for the year ended 31 December 2016 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 27 June 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 and the Accounting Officer for the Accounts and Reconciliation Statements**

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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**

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### **2.1 Appropriation Account**

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#### **Total Provision and Expenditure**

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The total net provision made for the Department amounted to Rs. 58,257.92 million of which Rs. 54,646.42 million had been utilized by end of the year under review. Accordingly, savings out of the total net provision of the Department amounted to Rs. 3,611.50 million or 6.20 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings, as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Million	Rs. Million	Rs. Million	
Recurrent	57,010.32	53,463.06	3,547.26	6.22
Capital	1,247.60	1,183.36	64.24	5.15
<b>Total</b>	<b>58,257.92</b>	<b>54,646.42</b>	<b>3,611.50</b>	<b>6.20</b>

## 2.2 Advances to Public Officers Account

### Limits Authorized by Parliament

The limits authorized by Parliament for Item No.33101, Advances to Public Officers Accounts of the Department and the actual amount are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
300.00	263.53	225.00	276.66	700.00	44.94

## 2.3 Imprest Account

The balance of the Imprest Account bearing No. 7002/0000/00/0431/0016/000 as at 31 December 2016 amounted to Rs.32.30 million.

## 2.4 General Deposit Account

The balances of 05 General Deposit Accounts of the Department aggregated Rs. 2,550.19 million as at 31 December 2016. Details are as follows.

Deposit Account Number	Balance as at 31 December 2016
	Rs. Million
6000/0000/00/0002/0168/000	1.74
6000/0000/00/0013/0123/000	2,541.59

6000/0000/00/0016/0113/000	5.30
6000/0000/00/0018/0111/000	1.50
6000/0000/00/0020/0019/000	0.06
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<b>Total</b>	<b>2,550.19</b>
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## 2.5 Audit Observation

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The Appropriation Account and the Reconciliation Statements of the Divineguma Development Department for the year ended 31 December 2016 had been satisfactorily prepared, subject to the audit observations appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in Paragraph 3.

## 3. Material and Significant Audit Observations

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### 3.1 Non – maintenance of Registers and Books

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It was observed during audit test checks that the Department had not maintained certain registers and certain registers had not been maintained in the proper and updated manner.

	<b>Type of Register</b>	<b>Relevant Regulation</b>	<b>Observation</b>
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(i)	Register of Vehicles	Financial Regulations 802 and 1647 (c ) and (e)	Not maintained
(ii)	Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978	Not updated
(iii)	Register of Fixed Assets of Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002	Not updated

### 3.2 Lack of Evidence for Audit

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The Sri Lanka Samurdhi Authority was to be amalgamated with the Department of Divineguma under the Divineguma Development Act No.01 of 2013. Accordingly, the stock books and the stock verification reports relating to the stationery and the trade stock valued Rs. 20,707,713 which had been included in the winding up Accounts of the Sri Lanka Samurdhi Authority as at 31 December 2013 and the register of acquisition pertaining to balances of deposits totalling Rs.179,000 deposited in 03 institutions from which the Department obtain supplies had not been furnished to audit. It could not be satisfied in audit whether those assets had been correctly acquired by the Department.

### **3.3 Replies to Audit Queries**

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Replies to 04 audit queries had not been furnished to audit. The period of delay ranged from 02 to 15 months. The value of quantifiable transactions relating to those queries amounted to Rs.102.7 million.

### **3.4 Appropriation Account**

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#### **Budgetary Variance**

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The following observations are made.

- (a) Over provision had been made to 19 Objects. As a result, the savings after utilization of the provision aggregated Rs.70.68 million and that was 12 to 99 per cent of the net provision of those Objects.
- (b) The unspent relief assistance of Rs.57.05 million of the year under review had not been credited to the Object. Meanwhile, the unrealized deposit of Rs.24.7 million of the previous year had been adjusted in the Relief Assistance Expenditure Account of the year under review. As a result, the correctness of the relief assistance expenditure of Rs. 40,740.17 million could not be confirmed.

### **3.5 General Deposit Account**

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The following observations are made.

- (a) The sum of Rs. 105,367,500 collected as application fees for recruitment of Divineguma Development Officers had been retained in the General Deposit Account instead of being credited to the Consolidated Fund. The balance remaining at the end of year under review after making payments from those deposits amounted to Rs. 34,367,500.
- (b) Necessary approval had not been obtained from the Treasury for activities relating to the Micro Finance Bank Division via the General Deposit Account. Instead, the receipts of Rs.9,000,000 and the expenditure of Rs.8,569,348 of the banking division had not been accounted in a deposit account as deposits received and paid.
- (c) The balance of Rs.2,449,502,627 obtained from the investments of the Bank's Financial division for payment of Samurdhi Relief Assistance in 2013 had not been settled. Although this was a liability payable, this had been included in the General Deposit Account.
- (d) Cheques valued at Rs. 2,982,636 had been issued for the expenditure of institutions amalgamated in 2014. These had not been presented to the bank for payments. Instead, the cheques had been retained in the General Deposit Account even by end of the year under review.

### **3.6 Advances to Public Officers Account**

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The following deficiencies were observed during the course of audit test checks carried out with regard to the Reconciliation Statement of the Advances to Public Officers Account – Item No.33101 as at 31 December 2016.

- (a) According to the information furnished to audit, the outstanding balances of loans due from 100 officers who had gone on transfers, expired, interdicted and dismissed from services as at 31 December 2016 aggregated Rs,2,662,770. Those arrears ranged for a period of 04 months to 19 years. The department had failed to recover those outstanding loan advances.
- (b) The outstanding loan balances of 09 officers including 03 officers who had come on change of station transfers in 2002 and 2003 amounted to Rs.746,964. Action had not been taken to settle those outstanding loan balances by receiving the amount concerned from the related ministries/departments.
- (c) The loan files of 24 officers pertaining to the Advances to Public Officers Account had not been furnished for audit. As such, the correctness of arrears of loan balances of Rs. 1,268,663 of those officers could not be examined.

### **3.7 Loan Revolving Fund**

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The loan balances due to the Loan Revolving Fund included in the financial statements of the Sri Lanka Samurdhi Authority as at 31 December 2013 amounted to Rs.130.16 million. Information to confirm the recovery of those loan balances had not been received. Approval of the Treasury had not been obtained for further continuation of this Loan Revolving Fund.

### **3.8 Good Governance and Accountability**

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#### **3.8.1 Annual Procurement Plan**

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A descriptive procurement plan and a procurement calendar had not been prepared in terms of Guidelines 4.2.1 and 4.2.2 of the Government Procurement Procedure.

#### **3.8.2 Internal Audit**

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Out of the 115 functions of 16 sectors of the head office planned to be executed during the year under review, 106 functions of 12 sectors had not been executed by the internal audit division.

### **3.9 Assets Management**

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The following deficiencies were observed during the course of audit test checks carried out with regard to the assets of the Department.

**(a) Acquisition and maintenance of Assets**  
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The following observations are made in this connection.

- (i) Registers of fixed assets had not been updated and maintained by 03 authorities and 02 departments amalgamated with the department. As such, the correctness of fixed assets aggregating Rs. 2,340.26 million included in the winding up accounts of those institutions as at 31 December 2013 which had subsequently been acquired by the department could not be confirmed.
- (ii) Three authorities namely, Sri Lanka Samurdhi Authority, Sri Lanka Southern Development Authority and the Sri Lanka Udarata Development Authority had been amalgamated with the department. According to their financial statements as at 31 December 2013, a total sum of Rs.316.25 million made up of Rs.289.03 million, Rs.26.58 million and Rs.0.64 million respectively were receivable from them as at 31 December 2013. The department had not taken action to recover this even by 31 December 2016.

**(b) Conduct of Annual Board of Survey**  
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According to the Public Finance Circular No.05/2016 of 31 March 2016, the annual board of survey should be completed and the report furnished to the Auditor General before 15 June 2017. However, 21 divisional offices had not furnished the annual board of survey reports.

**(c) Assets given to External Parties**  
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The department had spent Rs. 855,416 during the year under review to maintain 4 vehicles of the Department given to the line ministry prior to about 2 years.

**3.10 Unsettled liabilities**  
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The following observations are made.

- (i) The value of unsettled liabilities of the department as at end of the year under review amounted to Rs. 7,479.78 million. Of these, liabilities amounting to Rs. 7,415.78 million ranged from 1 to 3 years.
- (ii) The liabilities occurred in excess of the savings after utilizing the provision made for 10 Objects amounted to Rs. 4,479.73 million.

### 3.11 Non-compliance

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

Instances of non – compliance with laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non - compliance
	Rs.	
<b>(i) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>		
* Financial Regulations 135, 137 and 138	21,653,387	The transactions of the Sri Lanka Southern Development Authority relating to its winding up activities during January to June 2014 had not been carried out with delegation of authority for financial control. During this period, 309 payments had been made on paid vouchers without approval and certification.
* Financial Regulation 371	1,123,644	Ad hoc imprests had been issued to 29 officers on 45 instances. However, those imprests had been settled after a delay of 7 days to 07 months.
<b>(ii) Public Finance Circular</b>		
Paragraph 02 of the Circular No.02/2015 of 15 July 2015		Thirteen vehicles of the department had been allowed to corrode without being used for 03 to 09 years.
Circular No. PF/423 of 22 December 2006		Funds such as Social Security Fund, Housing Development Fund, Bank Association Stationery Revolving Fund, Employees' Loan Revolving Fund, Divineguma Fund and the Divineguma Social Security Fund had been maintained within the Department. Action had not been taken to obtain the advice of the Treasury so as to make them statutory

and to prepare financial statements at the end of the year in order to furnish them to the Auditor General.

**(b) Non-compliance with Tax requirements**  
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Committee allowances of Rs.2,455,291 had been paid to the members of the management staff which supervises the Divineguma and regulate community based banks and the bank societies. The pay-as-you-earn tax of 10 per cent amounting to Rs. 245,529 had not been deducted from these allowances and remitted to the Department of Inland Revenue in terms the Public Finance Circular No.03/2016 of 29 April 2016.

**3.12 Performance**  
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Observations on the progress of the Ministry as per Budget Estimates of 2016 and the Action Plan appear below.

- (a) A sum of Rs.90 million had been provided without planning for developing the infrastructure facilities relating to the livelihood development. Attention had not been paid to develop the infrastructure facilities of poor people in 18 districts. Instead, the provision concerned had been utilized only for development functions of 07 districts.
- (b) Five functions noted in the Action Plan had not been fulfilled. Although 03 functions had been fulfilled, the expected results had not been obtained.

**3.13 Deficiencies in Operation of Bank Accounts**  
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The following observations are made.

- (a) Long delays were observed in the preparation of bank reconciliations of official bank accounts in terms of Financial Regulation 395(d).
- (b) Action had not been taken in terms of Financial Regulation 396(d) even by end of the year under review with regard to 113 cheques totally valued at Rs.806,638 issued as at 31 December 2016 from the official bank accounts of the head office and 09 districts offices remaining unpresented to the bank even after the expiry period of 6 months.
- (c) The unidentified credits as per bank reconciliation statements of the head office and 02 district offices as at 31 December 2016 amounted to Rs.2,066,851 and the value of 18 cheques remaining unrealized for 01 to 11 months amounted to Rs. 3,362,178.



### **3.14 Transactions of Contentious Nature**

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The following observations are made.

- (a) Five vehicles of the Department of the Commissioner General of Samurdhi and 03 vehicles of the Sri Lanka Udarata Development Authority amalgamated with the department had not been vested with the department. Of those vehicles, 02 vehicles had been assigned to the Commissioner of Samurdhi and the Commissioner (Finance).
- (c) A sum of Rs. 32,500,000 had been granted to the Central Provincial Council in August 2016 for the Pahathahewaheta Water Scheme of the Central Province on the advice of the Secretary to the Ministry and the approval of the Director General although provision had not been made in the Action Plan. This provision had not been used for the said water scheme even by end of the year under review and had been retained in the Deposit Account of the Provincial Council.
- (d) Purchase of head covers for school children of the Pahathahewaheta Divisional Secretariat Area and renovations to the Rikilagaskada Bus Stand were functions which do not belong to the scope of the department. A total sum of Rs.14,330,000 had been provided by the department on an estimate prepared by the Central Provincial Council which amounted to Rs.2,030,000 and Rs.12,300,000 respectively.

### **3.15 Irregular Transactions**

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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**

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The following observations are made with regard to the procurements made by the Department.

- (i) A workshop titled “New route of the Samurdhi Campaign” has been conducted by spending a total sum of Rs.2,132,030 with the participation of 140 executive officers without calling for bids as required by Guideline 3.4 of the Government Procurement Procedure.
- (ii) A sum of Rs.1,040,000 had been spent deviating from Guidelines 4.1(e), 3.8 (1)(a), 2.7.5 and 2.8.4 of the Government Procurement Procedure for functions such as alteration of the theme song of the department of Divineguma Department and for collection of episodes which were not planned activities.
- (iii) Two hundred and fifty tab computers worth Rs.4,000,000 had been purchased for the media programme of the Department at the end of 2016 treating it as an urgent matter. The time limit specified in Guideline 6.2.2. of the Government

Procurement Procedure had been deviated during this instance. The purchases so made remained at the stores for 03 months without action being taken to distribute them.

**(b) Transactions without Authority**  
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The following observations are made.

- (i) Collection of Rs.10,000 had been made annually from each Divineguma Community Based Bank without identifying any specific purpose. The money so collected had been kept in a General Deposit Account named “Bank Publicity and Promotion Fund” and the investment balance as at end of the year under review amounted to Rs. 30,059,302. Of this investment, a sum of Rs. 3,799,948 had been withdrawn before maturity and had been utilized for various expenditure including the Suriya Mangalya Festival conducted at Hanguranketha in April 2016.
- (ii) The competitive examination for filling 3771 vacancies of Samurdhi Development Officers had been allowed to be conducted by a state university for Rs. 97,580,000 as consultancy fees without a proper written agreement.
- (iii) Allowances aggregating Rs. 1,492,500 had been paid from May 2015 to April 2017 at the rate of Rs.7,500 and Rs.10,000 for members of the management council to supervise and regulate the financial activities of Divineguma Community Based Banks and Divineguma Community Based societies. Allowances amounting to Rs.190,971 had been paid to 2 officers of the Department of Samurdhi Development as 1/3 rd of their salaries the period November 2016 to April 2017 for functioning as Chairman and Secretary of the Committee for which proper approval had not been obtained.
- (iv) Payment of allowances to members of the Divineguma National Council established for assisting the department had not been referred to in Section 7(1) of the Divineguma Development Act No.01 of 2013. However, a total sum of Rs.772,000 had been paid to 11 members for 23 sessions of the Council at Rs.4,000 per session.

**3.16 Transactions in the nature of Financial Frauds**  
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The following observations are made.

- (a) A financial fraud of Rs. 23,406,848 had occurred at the Kandy District Divineguma Office during the period January 2014 to January 2016. A complaint had been lodged at the Fraud Investigation Bureau, Colombo in this connection and a case had been filed in the District Court, Kandy. But, investigation activities had not been completed in terms of Financial Regulation 104.

- (b) Action had not been taken in terms of Financial Regulation 104 and to recover the amount concerned with regard to the cash fraud of Rs.1,016,170 committed by a Lady Samurdhi Development Officer at the Bandaragama Divisional Secretariat in 2015.

### 3.17 Losses and Damages

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The following observations are made.

- (a) Losses and damages had not been reported and action had not been taken in terms of Financial Regulation 104 with regard to 02 accidents caused to vehicles during the year under review during unofficial trips. Of these, one vehicle had been fully damaged so that it cannot regain its original position. The vehicle had been driven by a person other than the driver and as such payment of compensation had been rejected by the insurers. The loss had not been ascertained.
- (b) There was delay in obtaining provision from the Treasury to pay gratuities amounting to Rs. 3,327.66 million computed for payments among 14,403 officers of 3 authorities amalgamated with the department. As such, the surcharges of 30 per cent payable in terms of the Payment of Gratuities Act No.12 of 1983 amounted to Rs. 998,298,753. During the year under review, surcharges amounting to Rs. 292,041,781 had been paid to 3,307 officers.

### 3.18 Unresolved Audit Paragraphs

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Reference to the audit paragraphs relating to the Department included in the reports of the Auditor General on which corrective action had not been taken is given below.

<b>Reference to the Report of the Auditor General</b>		<b>Subject under reference</b>
<b>Year</b>	<b>Paragraph number</b>	
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(a) 2015	3.1 (a)	A register of official telephones had not been maintained in terms of Appendix 26 of Financial Regulation 845(1)
(b) 2015	3.1(b) and 3.10.1(b)(iii)	Action had not been taken to obtain security deposits from officers and to maintain a register of deposits in terms of Financial Regulations 890 and 891(1).

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|-----|------|---------------|---|
| (c) | 2015 | 3.1 (d)       | A register of losses and damages had not been maintained in terms of Financial Regulation 110.  |
| (d) | 2015 | 3.9(c)(i)     | Action had not been taken to dispose of, the stock of stationery valued at Rs.2,395,081 which cannot be used, as pointed out in the board of survey reports of the Bank Stationery Revolving Fund.  |
| (e) | 2015 | 3.9(d)(ii)    | Action had not been taken by the department to acquire and enter into agreements with the new lessees with regard to 09 land and buildings and properties which had been given on lease by the Sri Lanka Southern Development Authority.  |
| (f) | 2015 | 3.9(f)(iii)   | A liability of Rs.2,992.78 million had been shown in the Appropriation Account since 2015 for Implementation of the “Isurumath Nivahanak” Programme. However, the necessary provision to create such a liability had not been made for the department in the annual budget estimates. |
| (g) | 2015 | 3.10.1(a)     | The Divineguma Development Fund and the Divineguma Revolving Fund had not been established in terms of Sections 36 and 37 of the Divineguma Act No.1 of 2013.   |
| (h) | 2015 | 3.10.1(b)(ii) | Stores minutes had not been prepared for the stock of Stores Goods and the Stationery Revolving Fund in terms of Financial Regulation 763.  |
| (i) | 2015 | 3.10.1(c)(ii) | Action had not been taken to stencil state emblem and the name of the department on all the other vehicles, except the vehicles allocated to officers in terms of the Public Administration Circular No.26/92 (1) of 03 August 1994.  |

### 3.19 Management Weaknesses

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The following observations are made.

- (a) An aid amounting to Rs.265 million had been approved by the World Food Organization to purchase food for victims of flood and landslides of May 2016 during the effective period of 05 July to 05 October 2016. But, programmes had not been initiated and completed even by end of the year under review. As a result, an aid of nearly Rs. 113 million had been deprived of. Aid amounting to Rs. 152,321,910 had been distributed via Divisional Secretariats. But, confirmations had not been received from those offices to ascertain whether it had been properly distributed.

- (b) Action had not been taken to assess the value of land and buildings of 1074 community based banks and 331 community based bank societies established in the Island. Although the ownership of land of those 1,115 buildings does not belong to the department, action had not been taken to acquire those land.
- (c) The control over vehicles of the department was not at a satisfactory level due to reasons such as, action being not taken to register 30 vehicles received from institutions amalgamated with the department in favour of the department, running charts of 17 vehicles required for audit test checks not being presented, supply of fuel to 15 vehicles for which drivers had not been assigned, gate passes not being used and the name of the department and state emblem being not stencilled on the related vehicles.
- (d) The financial frauds revealed in 18 community based banks and bank societies prior to 2013 had been valued at Rs.12,023,000 and the financial frauds occurred in 63 community based banks and bank societies from 2014 to 2016 after formation of the Department of Divineguma had been valued at Rs.108,902,167. Further, the financial frauds at 25 other banks and bank societies had not been computed.
- (e) Action had not been taken to make the Divineguma Social Development Foundation statutory and to plan it properly with the intention of providing relief measures to the low income earning poor people from the flag day collections to commemorate the international prohibition of smoking and anti drugs day. The balance of the Fund as at end of the year under review amounted to Rs. 218,278,603. Further, the correctness of the income collected during the year under review which amounted to Rs.229,625,062 could not be confirmed as the flags had been sold without a fixed selling price.

### 3.20 Human Resources Management

#### Approved Cadre and the Actual Cadre

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

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies	Excess
(i) Senior Level	72	87	-	15
(ii) Tertiary Level	2,581	28	2553	-
(iii) Secondary Level	21,193	23,612	-	2,419
(iv) Primary Level	187	176	11	-
(v) Others/ casual/ temporary/ contract basis)	-	20	-	20
<b>Total</b>	<b>24,033</b>	<b>23,923</b>	<b>2,564</b>	<b>2,454</b>

The following observations are made.

- (a) Service minutes and recruitment procedure had not been approved for other services except the service pertaining to Divineguma Development Officers. As a result, recruitments, promotions and retirement and payments of retirement benefits to 155 retired/expired employees could not be done.
- (b) There were 18 vacancies in the posts of District Directors of Divineguma which should be filled by officers of the Sri Lanka Administrative Service, Grade 1. But, the work had been covered up by Grades 11 and 111 of the Sri Lanka Planning Services on acting basis. The posts of Accountants had been vacant in 21 district offices by July 2017.