

Head 195 – Report of the Auditor General on the Ministry of Development Strategy and International Trade - Year 2017

The Appropriation Account and the Reconciliation Statement under the Head and item number stated in the first schedule and the third schedule of the Appropriation Act No.24 of 2016 as amended by Appropriation (amendment) Act No.32 of 2017 had been present to Audit by the Ministry of Development Strategy and International Trade. The financial and physical performance depicted in such accounts and reconciliations statements had been audited in pursuance of provisions Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer for the financial management and Accountability

The minister of Finance is charged with the raising of Revenue and the collection of other government monies as well as with the general oversight of all the financial operations of government PTO in terms of Financial Regulation the Democratic Socialist Republic of Sri Lanka. The minister of finance appoints secretaries of Ministries to be the Chief Accounting Officer and delegates to him responsibilities to fulfill such responsibilities in terms of Financial Regulation 124(2). In terms of Financial Regulation 125(1)(a), the Head of each Department will be the Accounting Officer in respect of all the financial transactions of his Department and the Treasury appoints the Revenue Accounting Officer. This responsibility includes designing, implementing and maintaining internal control to enable the preparation and fair presentation of the accounts and reconciliation statements presented by fulfilling his functions within the limitations determined by parliament, 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.

1.3 Scope of Audit

The audit of financial and physical performance including the planning, government expenditure, human and physical resources management, application of internal control systems, compliance with laws, rules and regulations, maintenance of books, registers and records in an updated manner, preparation and periodical presentation of accounts, issue of performance reports to relevant parties based on performance indicators of Head 195 - Ministry of Development Strategy and International Trade for the year ended 31 December 2017 was carried out in pursuance of provisions of Article 154(1) of the Democratic Socialist Republic of Sri Lanka. The management Audit report for the year under review had been issued to the Secretary to the Ministry on 11 July 2018. 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 substantive tests of samples of transactions. The scope and extent of such reviews 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.

1.4 Audit Observation

Audit observations revealed at the audit of the Ministry of Development Strategy and International Trade for the year ended 31 December 2017 appeared in detail in the Management Audit Report stated in paragraph 1.3 above. Out of such observations, the material and significant observations appear in paragraphs 2.1 to 2.11 of this report. The accountability as a Chief Accounting Officer had satisfactory performed subject to the audit observations as summarized below revealed in performing the provisions in Financial Regulation 127 of the Democratic Socialist Republic of Sri Lanka, ensuring the sufficiency of Financial Administration. It was observed the followings.

Accountability of the Chief Accounting Officer in terms of Financial Regulation 127	Non-compliance with that Provision by the Chief Accounting Officer	Reference to the Paragraph included Observation
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Financial Regulation		

127(1)(a)	Planning all financial works so that the business is transacted with correctness and financial property.	<ul style="list-style-type: none"> 1. Action plan not correctly prepared. 2.1.1 2. Procurements not adequately planned. 2.21 3. Non-maintenance of books and registers 2.9
127(1)(b)	Evaluation of a system which provides adequate controls over expenditure and the collection of revenues.	<ul style="list-style-type: none"> 1. Non-compliance 2.16 2. Weaknesses in Human Resources Management 2.11 3. Management Weaknesses 2.6
127(2)	Existing items of expenditure as well as proposals for new or increased expenditure in the Department under his control, are closely examined in the Ministry from the point of view of economy and efficiency	Deficiencies in the execution of procurement process 2.2.2
127(3)	All cases of doubter difficulty are referred to him so that he may bring his own administrative experience and judgment to bear on them.	<ul style="list-style-type: none"> 1. Fuel consumption not tested. 2.3(a) 2. Improper utilization of assets belonged to other entities 2.3 (c) 3. Improper utilization of assets belonged to other entities. 2.3(d) 4. Annual Board of Surveys not conducted. 2.3(b)

127(4)	Appropriation Accounts are duly rendered by each of his Accounting officer and examined at the Ministry before he signs them and that important differences in the estimates and the actual expenditure are critically investigated by him.	1. Liabilities committed in excess of annual Budget limits 2. Delays in the settlement of Imprest Advance	2.4 2.8
127(5)	Important variations between Departmental Estimates and expenditure receive critical examination at the Ministry.	-	
127(7)	The procedure laid down in Financial Regulations 103 to 108 is followed by the Accounting Officers in case of losses caused to government by the delays, negligence, fault or fraud on the part of officers/ employees responsible for such losses in terms of Financial Regulation 156(1). It is also a duty of the Chief Accounting Officer to appear before committee on Public Accounts and to assist it with his Accounting Officer in explaining and justifying the accounts of the Department for which he is responsible.	Losses and damages	2.5

2. Material and significant audit observations

2.1 Performance

(a) Planning

The action plan for the year 2017 had been prepared in terms of Public Finance Circular No.01/2014 of 17 February 2014. Accordingly, 26 key functions to be performed by the Ministry in the year under review had existed. The following

deficiencies were observed in respect of action plan prepared for the achievement of expected results by 4 statutory institutions established under the Ministry.

- (i) Even though, the organization structure, approved cadre and the particulars of existing updated in service at present, had been updated it had not been included in the Action Plan.
- (ii) Even though, the annual action plan had been revised at the end of the year under review, it had not been informed the Treasury and as such the provisions approved on the original action plan had not been revised in terms of revised action plan.
- (iii) According to the original action plan the cost only for the performance of one activity had been estimated but the cost for any activity whatsoever had not been estimated in the revised action plan.
- (iv) The imprest requirement plan had not been prepared for the annual activities.

(b) Achievement of Sustainable Development Goals

 The following observations are made in that connection.

According to the “Year 2030 Agenda” of the United Nations on Sustainable Development, the Ministry had recognized Sustainable Development Goals 8.9 and 17 to be reached by the Ministry in terms of its scope. Nevertheless, the top management of the Ministry had not conducted a complete analysis in respect of other objectives subject to the scope of the Ministry. Even though, the existence of an accurate data base is extremely required for the measurement of performance, the Ministry had not taken action to create an accurate data base in order to measure the reaching of sustainable development targets.

2.2 Ascertainment of supplies and services through the procurement process

 The Ministry had made a provision of Rs.45.38 million for the ascertainment of supplies and services by following government procurement guidelines, out of which a sum of Rs.42.88 million had been utilized. Particulars are given below.

Expenditure Object	Object details	Net provision made	Utilization	Savings
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	Supplies			
		Rs.Mn	Rs.Mn	Rs.Mn
1201	Stationery and office requisites	3.0	2.98	0.02
1203	Food and uniforms	0.38	0.34	0.04
1205	Others	0.20	0.20	-

Acquisition of capital assets				

2101	Motor vehicles	36.00	35.28	0.72
2102	Furniture and Official equipment	2.80	2.19	0.61
2103	Plant & machinery	3.00	1.89	1.10
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	Total	45.38	42.88	2.49
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2.2.1 Planning and preliminary stage of procurements

A provision of Rs.45.38 million had been made to the Ministry for fulfilling supplies and services through the procurement process in the year under review and a sum of Rs.42.88 million thereof had been utilized. A master procurement plan in respect of provisions made had not been prepared. Even though, a proposed annual procurement plan had been prepared, particulars of each procurement function had not been included therein. Similarly, the procurement package summary as well as the preliminary procurement plan had not been prepared.

2.2.2 Weaknesses in the execution of procurement process

The following observations are made in this connection.

- (a) Media publicity in respect of people's awareness on the development of Hambantota Port and Industrial Zone

The ministry had implemented a media program in respect of people's awareness on the development of Hambantota Port and the Industrial Zone during the year 2017 and a sum of Rs.18,853,894 (with VAT & NBT) had been paid to media entities in respect of people's awareness through the Television, radio and newspapers. The following observations are made in this connection.

- (i) This procurement process had not been approved through the annual action plan or annual procurement plan.
- (ii) An estimate in terms of procurement guideline 4.3.1 and specifications in terms of guideline 5.6 had not been prepared for this purpose.
- (iii) According to the supplement 28 to the government procurement guidelines dated 04 July 2014 in calling for sealed quotations not less than 3 quotations when following shopping method for service procurement, not goods and consultancy services, the authority limit of the Ministry procurement committee should be only Rs.8 million, but the Ministry had taken action, exceeding that limit.

- (iv) Quotations from 3 accepted entities included in the internet had been called for this procurement but the priority had not been given to government institutions in selecting those entities.
- (v) An expert relating to the subject matter had not been appointed to the Technical Evaluation Committee in terms of guideline 2.8.1(b) of the government procurement guidelines.
- (vi) There was no evidence to ensure whether standard bid calling registers had been used for this purpose in terms of guideline 5.3 of the procurement guidelines and the bid opening process had not been reported in a specific format in terms of guideline 6.3.6 of the procurement guidelines.
- (vii) Even though, a private media agency had been selected for this purpose on the recommendations of the Technical Evaluation Committee, by the Procurement Committee under a contract sum of Rs.16,208,705 (excluding VAT & NBT) there was no evidence whether the letter of acceptance had been issued for this contract in terms of guideline 8.7.1 (b) of the procurement guidelines.
- (viii) Only a sum of Rs.9,704,546 had been paid to the agency selected for the performance of this task. Moreover the balance of Rs.9,149,348 had been paid to the media entity used for the supply of this service without paying it to the agency selected from the procurement process.
- (ix) No evidence was made available to ensure in respect of telecasting time and number of turns presented by the electronic media in making above payments.

(b) Partitioning of rooms of the Ministry office located in the 30th floor

Bid opening functions for the procurement of Partitioning the rooms of the Ministry office located in the 30th floor valued at Rs.1,129,803 had not been recorded in the specimen form stated in paragraph 6.3.6 of the procurement manual and the bid opening committee members had not signed those records. Further, a specific amount from the amount payable to the contractor had not been retained as retention money in terms of guideline 5.4.6 (a) of the procurement guidelines.

(c) Other Procurements

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- (i) In terms of Public Finance Circular No.431(1) dated 16 February 2016 the open quotations should be called for from air travel agents recognized and registered with the Civil Aviation Authority for the purchase of air tickets and organization of air travels and selected the entities in accordance with the provisions of the procurement guidelines to get the maximum values for money spent by the government. However, the Ministry had called for

quotations only from one entity in 5 occasions and paid a sum of Rs.3,876,200 for the purchase of air tickets.

- (ii) Instead of calling for quotations, after preparation of specifications for the human resources requirement of the Ministry for the workshop outstation group activities of the staff, resource persons had been selected based on the proposals presented by private entities and a sum of Rs.205,000 had been paid for resources contribution. Furthermore, only the quotations presented in the selection of resources persons had been evaluated but no evidence was available whether the government registration, quality of service and the standard had been considered.

2.3 Assets Management

Audit test check carried out in respect of assets of the Ministry revealed the following deficiencies.

- (a) Fuel consumption not tested
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Fuel consumption of motor vehicles of the Ministry had not been tested in terms of paragraph 3.1 of the public Administration circular No.30/2016 dated 29 December 2016. Further, fuel had not been consumed economically as action had not been in terms of the annex in that circular.

- (b) Conducting annual Board of Survey
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According to the paragraph 3.1.6 of the Public Finance Circular No.05/2016 dated 31 March 2016 the annual Board of Survey for the year 2017 should be conducted and such reports should be presented to the Auditor General before 17 March 2018, but the Ministry had submitted those reports to the Auditor General on 06 July 2018, after a delay of more than 3 months.

- (c) Assets of other entities in properly used
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The ministry had used 4 vehicles belonging to an another party without any approval and a maintenance cost of Rs.2.07 million had been spent during the year under review. Similarly, 341 items of capital goods costing Rs.3.69 million belonging to the Board of Investment of Sri Lanka had being using even by 31 December 2017 by the Ministry.

- (d) Improper utilisation of assets not vested
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Two motor vehicles registered under the then ministry of Irrigation and Investment Promotions had not been acquired by the new ministry.

2.4 Commitments and liabilities

In terms of State Accounts Circular No.255/2017 dated 27 April 2017 and Financial Regulation 94, no expenditure or commitments should be incurred and at no time should the commitments and the expenditure incurred exceed such provision for the financial year, the ministry had committed. Liabilities, exceeding the savings of 16 expenditure objects totalling Rs.13,755,774.

2.5 Losses and Damages

An expenditure of Rs.2,434,136 had been incurred in respect of vehicle accidents caused to 10 vehicles of the Ministry in the year 2017 out of which a sum of Rs.2,017,455 had been recovered from insurance covers. Accordingly, a loss of Rs.384,314 was incurred. The Ministry had not taken action to recover the loss from the responsible officer after being inquired even by 05 October 2018.

2.6 Management Weaknesses

Audit test check observed the following weaknesses.

- (a) The Ministry office had been operated in a 3,886 square feet area in the 30th floor of West Tower of the World Trade Centre without entering in to a new agreement a sum of Rs.16.02 million had been paid as building rents for the period 15 March to 31 December 2017.
- (b) A sum of Rs.230,000 as an air ticket expense and for the change of travel date expense of an officer in the Attorney General's Department who had participated in a Training Programme held in the United Kingdom in the year under review and a sum of Rs.650,450 on behalf of an officer in the Industrial Development Authority who had participated in the 6th discussion between China and Sri Lanka on free trade agreement had been incurred by the Ministry.
- (c) The officers in the Ministry had been participated in the 4th round discussion held in India in respect of Indo-Sri Lanka Economic and Technology Co-operation agreement and the workshop held in Brussels in the year under review and at US\$ 75 per day had been paid as incidental allowances for the settlement of transport and other expenses incurred abroad in terms of Section 3(b) of the Ministry of Finance Circular ௨.௫.No.01/2015/01 dated 15 May 2015. However, sums of Rs.256,078 and Rs.137,500 had been remitted to the Ministry of Foreign Affairs as expenses incurred on transport in that country.
- (d) Under the approval of the cabinet committee on Economic Management Agency for Development and Agency for International Trade had been established in the year 2016. Nevertheless, the Act, enforceable of these agencies had not been passed by parliament even by 31 December 2017 and the Ministry had spent a sum of Rs.18,348,930 by 31 December 2016 in respect of the functions of these agencies out of which 53 of the expenditure had been incurred on foreign travels of committee members of these agencies.

2.7 Utilisation of provisions made by parliament for achievement of functions

Particulars of provisions made to the Ministry for the period for 5 years ended 31 December 2017, utilisation and savings of those provisions and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provision
		Rs.Millions	Rs.Millions	Rs.Millions	
2014	Recurrent	125.29	99.23	26.06	20.80
	Capital	48.71	42.86	5.85	11.27
	Total	174.00	142.09	31.91	18.34
2015	Recurrent	353.59	343.79	9.80	2.77
	Capital	359.49	195.97	163.52	45.49
	Total	713.08	537.76	173.32	24.31
2016	Recurrent	565.90	537.63	28.27	5.00
	Capital	473.00	177.00	296.00	62.58
	Total	1038.90	714.63	324.27	31.21
2017	Recurrent	585.69	503.69	82.11	14.04
	Capital	1379.80	550.95	828.85	60.07
	Total	1965.49	1054.54	910.96	46.35

Non-utilization of provisions made

- Out of the capital provision in the years 2015, 2016 and 2017, 45.49 per cent 62.58 per cent and 60.07 per cent respectively had not been utilized.
- The total net provision of Rs.0.3 million made for 2 expenditure objects in the year under review had not been utilized and saved.
- As over provision of Rs.876.76 million had been made for 29 objects in the year under review, only a provision totaling Rs.571.21 had been utilized and as such the savings amounted to Rs.305.46 million and it had ranged from 10 per cent to 93 per cent of the net provisions made.

2.8 Imprest Account

The following observations are made in this connection.

- In terms of Financial Regulation 371(5) as amended by Public Finance Circular No.03/2015 dated 14 July 2015, the sub-imprest obtained should be settled within 10 days after the completion of purpose for which it was taken. However, sub-imprests totalling Rs.127,500 given in 5 occasions had been settled after the completion of purpose with delays for periods ranging from 01 month to 5 months.

- (b) As he expected expenditure had not been estimated more accurately in granting special advances, cash had been given as advances, exceeding the requirement by Rs.136,764 and this advance had not been settled immediately after the completion of task and settled after delays from 7 to 22 days.

2.9 Non-maintenance of books and records

A bid calling register had not been maintained by the Ministry in terms of guideline 5.2.1 (a) of the government procurement guidelines.

2.10 Non-compliances

Non-compliance with laws, rules and regulations

Non-compliances with laws, rules and regulations observed at audit test checks are analyzed below.

Reference to laws, rules and regulations	Value	Non-compliance
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	Rs.	
(i) Section 23.5.1 of Chapter XII of the Establishment Code	-	An officer for acting had not been appointed in 3 occasions before the officers had proceeded abroad.
(ii) Section 11.1 of Chapter XV of the Establishments Code	3,543,600	When proceeded abroad for discussions held internationally by 7 officers in 19 occasions business class air tickets had been purchased.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		

(i) Financial Regulations 104(1)(a), 104(3), 104(4)	214,205	Reports in respect of 8 vehicles accidents of the Ministry had not been prepared and presented to the Auditor General.
(ii) Financial Regulation 1641	-	A motor vehicle had met with an accident when it was parked in an open un-protective place.
(iii) Financial Regulation 1645	-	Log books in respect of vehicles of the Ministry had not been maintained in an updated manner.

2.11 Human Resources Management

Approved Cadre, Actual Cadre and Personal Emoluments

Particulars of approved and actual cadre and number of vacancies as at 31 December 2017 are given below. The Ministry had spent a sum of Rs.120.23 million as personal emoluments for the year under review and as such the expenditure per person had been Rs.561,837.

	Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i)	Senior Level	26	19	07
(ii)	Tertiary Level	03	01	02
(iii)	Secondary Level	238	176	62
(iv)	Primary Level	17	14	03
(v)	Casual/ Temporary Contract Basis	04	04	-
	Total	288	214	74

The following observation is made in this regard.

Staff Training

Out of 214 staff numbers of the Ministry, the number of officers who had not been trained at least for 8 hours per year amounted to 195.