Head 11 - Report of the Auditor General on the Finance Commission – Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Finance Commission. The financial and physical performance reflected by that account and the reconciliation statement were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the 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 in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Commission will be the Accounting Officer in respect of all the financial transactions of his Commission in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed 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, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of Finance Commission – Head 11 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Secretary of the Commission on 31 August 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports 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.

1.4 Audit Observation

The audit observations of the Finance Commission for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the said observations, appear from paragraphs 2.1 to 2.8 of this report. It was observed that the accountability as the

Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128		Non-compliance with Provisions by the Accounting Officer	Reference to the Paragraph of the report which included Observations
Financial Regulations			
128(1)(a)	That the work of his department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised, and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified;	1.Failure in preparation of the Action Plan accurately.	2.1
		2. Failure in planning procurement activities in an adequate manner.	2.3.1
		3. Failure in preparation of the budget estimate in a realistic manner.	2.6
		4. Deficiencies in preparation of Imprests Estimates	2.7
		5. Delays in execution of projects.	2.2(b)
		6. Deficiencies in implementation of procurement process.	2.3.2

2. Material and Significant Audit Observations

2.1 Performance

Planning

The Action Plan for the year 2017 had been prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014. Accordingly, the following deficiencies were observed in respect of the Action Plan prepared for achieving anticipated outcome by the Commission in the year under review.

(a) The updated organizational structure for the year under review had not been submitted by the Commission.

(b) The Commission had submitted the Action Plan prepared according to the priorities based on the Annual Budget and the Activity Time Line relating to the year under review and anticipated output/outcome of those activities had not been estimated and submitted.

2.2 Non-performance of Functions

The following observations are made.

(a) Non-performance of Functions included in the Action Plan

(i) In terms of Article 154(r) (4) of the Constitution, it has been indicated in the recommendations made to His Excellency the President for the year 2017 that the provinces and local authorities need to lessen the grants-dependency syndrome and ensure that they make efforts to generate potential revenue to the maximum possible extent and as such, the Finance Commission has taken some initiatives to encourage revenue generation by re-introducing the "Matching Grant". Further, it has been mentioned under No.26 of the Action Plan for the year 2017 that action is being taken thereon throughout the year. However, functions performed relating thereto had not been indicated as at 31 December 2017 in the progress report relevant to the Action Plan.

(ii) According to Action Plans relating to the years 2016 and 2017, a Data Base and Management Information System (MIS) had been planned to be installed for the Commission and the Asia Foundation had planned to provide funds therefor. However, the relevant function had not been performed even by 31 December 2017.

(iii) Even though the purpose of formulation of the Finance Commission Act had been included in the Action Plan in the years 2016 and 2017, the relevant Cabinet Paper had been presented only for the approval even by 31 December 2017.

(b) Delays in Execution of Projects

(i) The budgeted provision relating to the contract of construction of a new office building for the Finance Commission totalled Rs.300 million and the contract of constructing the said building had been awarded to a private company at a cost of Rs.257.64 million. Accordingly, construction activities had been planned to be completed within 15 months from 7 November 2016 to 30 January 2018. However, according to the 13^{th} Progress Review Meeting held on 27 December 2017, a delay of 94 days had occurred in constructions from 28 November 2017 and according to the Performance Report, a delay of 109 days than the due date had occurred by 31 December 2017.

(ii) According to the Activity Time Line relating to the construction of the proposed building, it had been planned to fix electrical appliances and accessories, sanitary fittings and to install generators and other security detectors by the end of December 2017, according to information presented to Audit, only construction of brick walls in the first and second floor and masonry of ground floor had been commenced as at 31 December 2017.

(iii) The Finance Commission had carried out its operations in the same old building obtained on rental basis even by 31 July 2018 and a sum of Rs.2,640,000 had to be paid therefor as lease rents and rates for a delayed period of 06 months at a rate of Rs.440,000 per month.

2.3 Obtaining Supplies and Services through the Procurement Process

Provisions amounting to Rs.102.32 million had been made by the Commission for obtaining supplies and services by taking action in accordance with the Government Procurement Guidelines and out of that, provisions of Rs.87.37 million had been utilized, thus indicating savings of Rs.14.95 million representing 14.61 per cent of the provisions made.

2.3.1 Planning of Procurements

In terms of Guideline 4.2.1 (a) of the Government Procurement Guidelines, the Commission had prepared the Master Procurement Plan for the year 2017 and according to Guideline 4.2.1(c), a detailed Procurement Plan had not been prepared.

2.3.2 Procurement Process on the Construction of a New Office Building for the Finance Commission

The following observations are made.

(a) A bid security in the prescribed format must be submitted by all the bidders in terms of Guidelines 5.3.11 of the Procurement Guidelines and it should exceed the period of validity. That excess period should be increased by 14 days more than the period given to successfull bidders for submitting performance security since acceptance of the bid. Even though the validity period of the bid security should be 133 days in terms of Guidelines, the bid security relating to this procurement had been published as 149 days in the notice of the newspaper.

(b) If the contract value exceeds Rs.250,000,000 in terms of Guideline 8.10.2 of the National Procurement Guidelines, publication of contract awards in at least one widely circulated national newspaper, the National Procurement Agency website and Government Gazette is mandatory. However, the Finance Commission had not taken action accordingly.

(c) The Cabinet of Ministers had named the Faculty of Architecture of the University of Moratuwa as the consultant for this procurement and an agreement had been entered into by both parties on consultancy services after a period of 06 months of the commencement of the procurement, that is, 16 February 2016.

2.4 Assets Management

The following observations are made.

(a) Utilization of Motor Vehicles

Nine motor vehicles including a motor cycle had been made use of by the Commission by the end of the year under review and a distance of 28,669 km had been run by those motor vehicles during the year under review. Moreover, a total sum of Rs.1,988,486 comprising a sum of Rs.331,063 for fuel and lubricant, a sum of Rs.150,195 for service, a sum of Rs.1,088,585 for repairs and a sum of Rs.418,643 for insurance of motor vehicles, had been spent. Accordingly, the Commission had spent a sum of Rs.69 per km for running of motor vehicles other than the salaries and allowances of Drivers.

(b) Conduct of Annual Boards of Survey

(i) In terms of the Public Finance Circular No. 05/2016 of 31 March 2016, the reports on Boards of Survey which should be furnished to Audit before 17 March 2017, had been furnished on 01 May 2018 and according to that report, in the comparison of the balance of the inventory with the actual balance, it was observed that 198 units of goods of 35 items of goods had been in excess.

(ii) Separate inventories had not been maintained in divisions and tables had not been inventoried separately as executive tables, clerk tables, discussion tables and steel tables.

2.5 Sustainable Development

Even though the Commission had made Provincial Councils aware of the sustainable development goals as objectives achieved under its scope on the awareness of the 2030 “Agenda” of the United Nations for Sustainable Development, action had not been taken to identify targets relating thereto, focal points reached as well as indices for measuring the progress thereon.

2.6 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on provisions made for the Commission during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision ------------ Rs. Millions	Utilization ------------- Rs. Millions	Savings -------- Rs. Millions	Savings as a Percentage of the Net Provision --------------
2013	Recurrent	41.34	32.04	9.30	22.49
	Capital	4.80	0.77	4.03	83.95
	Total	**46.14**	**32.81**	**13.33**	**28.86**
2014	Recurrent	36.62	32.99	3.63	9.91
	Capital	4.10	1.70	2.40	58.53
	Total	**40.72**	**34.69**	**6.03**	**14.80**
2015	Recurrent	38.50	36.03	2.47	6.41
	Capital	4.50	2.02	2.48	55.11
	Total	**43.00**	**38.05**	**4.95**	**11.51**
2016	Recurrent	44.69	43.68	1.01	2.26
	Capital	203.00	70.55	132.45	65.25
	Total	**247.69**	**114.23**	**133.46**	**53.88**
2017	Recurrent	50.16	48.28	1.88	3.75
	Capital	102.90	87.84	15.06	14.64
	Total	**153.06**	**136.12**	**16.94**	**11.07**

In considering the utilization of capital expenditure of 04 preceding years, it had been 83.95, 58.53, 55.11 and 65.25 per cent in the years 2013, 2014, 2015 and 2016 respectively. However, more than half the provisions made for capital expenditure had been saved and it had decreased up to 15 per cent in the year 2017. Moreover, it is observed that the provision made for capital expenditure had decreased by 49 per cent in the year under review as compared with the preceding year.

Appropriation Account

Excess provision had been made for Capital Objects in the year under review and as such the savings, after the utilization of provisions during the year, amounted to Rs.14,871,354 representing 15 per cent of the net provisions.

2.7 Imprest Accounts

In the examination of imprests expected to be obtained monthly, imprests applied monthly and imprests received, according to the Imprests Estimate prepared by the Commission for the year under review, imprests planned to be obtained for the year 2017 itself by the Commission, had been Rs.154.39 million and the imprests applied had been Rs.252.25 million and as such, applying of imprests exceeding the imprests planned, had been Rs.97.86 million or 63 per cent.

2.8 Human Resources Management

2.8.1 Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre and vacancies as at 31 December 2017 for the performance of the functions mentioned in paragraph 2.1 above, appear below. A sum of Rs.30.11 million had been spent by the Commission for the category of personal emoluments for the year under review. Accordingly, the annual per capita expenditure had been Rs.654,494.

	Category of Employees	Approved Cadre	Actual Cadre	Vacancies
(i)	Senior Level	15	10	05
(ii)	Tertiary Level	03	02	01
(iii)	Secondary Level	44	25	19
(iv)	Primary Level	14	09	05
(v)	Other(Casual/Temporary/Contract Basis)	01	01	
	Total	77	47	30

The following observations are made in this connection.

(i) The approved cadre of the Commission as at 31 December 2017 stood at 77, whilst the actual cadre stood at 47, thus observing 30 vacancies. Moreover, the number of vacancies in the senior level was 05 and it comprised of one Director and 04 Deputy Directors.

(ii) Moreover, the number of posts of the Director in the approved cadre of the Commission had been 4 and according to the organizational structure of the Commission, there were 05 posts of Director. Further, the number of posts of Deputy Director in the approved cadre had been 7 and according to the organizational structure, it had been 05.

(iii) Nineteen posts in the secondary level of the Commission had been vacant and recruitments had not been made for 05 approved posts of Programme Assistant.