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**UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO SRI LANKA**

**ASSESSMENT OF FINANCIAL
MANAGEMENT SYSTEMS OF HOST
COUNTRY IMPLEMENTING
AGENCIES**

**CONTRACT NO : 383-0499-C-00-3453-00
DELIVERY ORDER NO : 383-0499-C-01-3453-00**

**MINISTRY OF ENVIRONMENT AND
PARLIAMENTARY AFFAIRS**

January 1994

**Coopers
& Lybrand**

PDR/329/93
Our reference

PDR/009/94

13 January 1994

Miss Linda Tarpeh-Doe
Financial Controller
United States Agency for International Development
356 Galle Road
Colombo 3

Dear Madam

Ministry of Environment and Parliamentary Affairs
(MEPA)

1 In accordance with the instructions given and terms of reference set out in Article IV of the Delivery Order No.383-0499-C-01-3453-00, we are pleased to present our report on the Assessment of the Financial Management System of MEPA. The detailed report which is attached was discussed with Mr Bulankulame, Secretary, Environment and a draft of the report was submitted to the Hon. Minister of Environment and Parliamentary Affairs, Dr. Wimal Wickremasinghe. The observations and suggestions made by them have been incorporated in the attached report. Our comments, findings and recommendations are given in eight chapters, one chapter being devoted to each work task defined in the terms of reference.

2 The more important comments and findings are given below as an executive summary.

The organization, background and structure

3 MFPA functions as a Cabinet Ministry established under the purview of the Government of Sri Lanka. The main activities of the Ministry are specified in the Government Gazette notification. These include, the formulation and implementation of programmes and projects based on environment protection and management and payment of remuneration to the staff of Members of Parliament.

4 In carrying out its activities with respect to environment protection and management MEPA coordinates two foreign government funded projects. They are:

- o Natural Resources and Environment Policy Project (NAREPP), established under a grant agreement between the Government of Sri Lanka and the Government of the United States of America.
- o Norwegian Environment Cooperation Programme (NORAD) established under a grant agreement between the Government of Sri Lanka and the Government of Norway.

5 The project cells and the organization structure in draft form, with specific reference to the finance division, are given in Chapter 1.

Administrative and management capabilities

6 As explained in Chapter 2, we consider the administrative and management capability of the Ministry, with specific reference to the finance division, as sufficient to carry out its functions effectively. We have set out the experience and qualifications of the senior management as an appendix to Chapter 2.

Internal control

7 Chapters 3 and 4 describe the control procedures in operation and our recommendations to improve the existing system. The internal control system is also documented in the form of flow charts which are given as appendices to Chapter 3. The more important internal control weaknesses can be summarized as follows:

<u>Paragraph Reference</u>	<u>Comments</u>
3.24 to 3.25	Items purchased are not handed over to the stores clerk and no independent verification of goods received is carried out. As a result there is a risk of erroneous and fraudulent payments being made and goods received not corresponding to what was ordered and paid for.
3.26 to 3.27	The possibility of alterations being made to cheques as cheques after signature, are sent back to the person preparing them.
3.28 to 3.29	Risk of duplicate payments being made erroneously or fraudulently, as documents supporting a payment are not cancelled <u>effectively</u> with a "PAID" stamp.
3.30 to 3.31	Non existence of a centrally controlled filing system resulting in difficulty being experienced in maintaining control over files.
4.01	Due to the inadequacy of staff all functions relating to purchases are carried out by the purchase clerk and there is no segregation of duties.

Budgetary control

8 As the budgets are not prepared based on specific tasks and programmes, MEPA is not in a position to effectively control its expenditure according to each budget line item. We have explained

the main features of Zero Base Budgeting System (para 4.4) which could be implemented by MEPA to effectively control expenditure.

Value for money reviews

9 As explained in paragraph 4.12, in the implementation of a project, it is necessary to ensure that there is economy in the commitment of funds, that operations are carried out efficiently and the project objectives are accomplished effectively. For this purpose we have recommended that cost indicators and performance indicators be developed and the performance be assessed periodically. Although such cost indicators and performance indicators have not been developed, procedures to control costs appear to operate effectively.

Inventory control

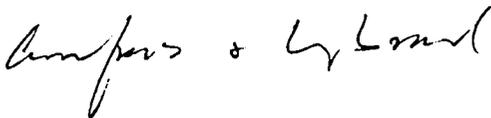
10 We have explained the Inventory Control System of MEPA in Chapter 6. In paragraphs 6.10 to 6.11 we have given the details that should be incorporated in the inventory records to implement a more effective inventory control system. Further, we have recommended the use of transfer forms to monitor the movement of assets.

General

11 We wish to place on record our sincere appreciation of the assistance rendered to us by Mr S W P Bulankulame, Secretary Environment, Mr J G Keerthiratne, Secretary Parliamentary Affairs, Mr W D A Weerawardene, Senior Assistant Secretary and the other members of staff of MEPA.

12 Should you require any further information or clarification on the matters reported, please contact the engagement partner Mr P D Rodrigo or the engagement manager, Mr Sanjay Niles.

Yours truly



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CHAPTER - 1

TASK - (A)

"REVIEW AND COMMENT ON THE LEGAL STATUS, GOALS, ORGANISATION STRUCTURE, STRUCTURE OF THE FINANCE DIVISION AND SOURCES OF FUNDING OF THE ORGANISATION BEING ASSESSED.

Background

1.1 The Ministry of Environment and Parliamentary Affairs (MEPA), is a ministerial portfolio of the Government of Sri Lanka. MEPA has thus been established by a Presidential Decree published under the Gazette notification No 117 - 90 of 30 March 1990. Thus MEPA functions, as a cabinet ministry of the Government of Sri Lanka.

Goals of the Ministry

1.2 MEPA is charged with the responsibility of providing guidance and policy direction in respect of all activities under the Ministry which are specified in Gazette notification No 117.

1.3 The activities of MEPA as specified in the Gazette are as follows:

- o Formulation of programmes and projects based on national policy in respect of the Environment and Parliamentary Affairs.
- o Direction of the implementation of such programmes
- o Payment of remuneration to the staff of Members of Parliament
- o Environmental protection and management

1.4 In carrying out its activities with regard to protection and management of the environment, MEPA, plays the role of the chief coordinator for two Foreign Government Funded Projects. They are:

- (a) Natural Resources and Environmental Policy Project (NAREPP)
- (b) Norwegian Environment Cooperation Programme (NORAD)

Natural Resources and Environmental Policy Project (NAREPP)

1.5 This programme was launched to implement an agreement signed between the Government of Sri Lanka and the Government of the United States of America. The agreement provides for a grant of US Dollars 19,000,000 for the purpose of;

- o sustaining economic growth in Sri Lanka, by efficient management of the Island's natural resources.
- o improving public and private institutional performance in formulating and implementing effective environmental policies and
- o developing environmentally sound development programmes.

Norwegian Environment Cooperation Programme (NORAD)

1.6 This programme was launched to implement an agreement signed between the Government of Sri Lanka and the Government of Norway. The agreement provides for a grant of 24,000,000 Norwegian Kroner (Rs 120 million, at 1989 exchange rate).

1.7 MEPA was not in existence during the initial stages of the NORAD project. It was administered by the Central Environment Authority (C E A), a Government Authority then functioning under the Ministry of

Policy Planning and Implementation. With the creation of MEPA in March 1990, CEA was brought under the purview of this Ministry. Thus the implementation of the NORAD project too was brought under MEPA.

1.8 The main components of the NORAD project could be categorised as follows:

- o Environmental protection and management
- o Environmental pollution
- o Environmental education and awareness creation
- o Institutional building and training
- o Environmental research and planning
- o Nature protection

The Organisation Structure

1.9 MEPA is headed by a Cabinet Minister, appointed by the Executive President. The Minister is assisted by a Project Minister, for Environmental Affairs and a State Minister for Parliamentary Affairs.

1.10 The Cabinet Minister is entrusted with the function of formulating policies for the achievement of ministry goals and objectives.

1.11 A formal organisation structure has not yet been drawn up by MEPA. An organisation structure in draft form, which was made available to us, is set out as Appendix A to this Chapter.

Secretary to the Ministry

1.12 The Secretary to the Cabinet Ministry who, is appointed by the President of Sri Lanka is entrusted with the function of overseeing the policy implementation, management of funds and the general administration of MEPA. He also serves as the Chief Accounting Officer of each department and agency within the purview of the Ministry.

State Secretary Parliamentary Affairs/Secretary to the Project Ministry for Environmental Affairs

1.13 The Secretary to the State Ministry for Parliamentary Affairs and the Secretary to the Project Ministry for Environment are appointed by the President of Sri Lanka. In addition they are appointed as Additional Secretaries to the Cabinet Ministry.

1.14 The Secretary to the State Ministry for Parliamentary Affairs, in his capacity as Additional Secretary oversees all functions relating to administration and support services of the Cabinet Ministry and the Central Environmental Authority (CEA), an authority which falls under the purview of MEPA.

1.15 The Secretary to the Project Ministry for Environmental Affairs, as, Additional Secretary to the Cabinet Ministry coordinates all environmental activities with the Secretary to the Cabinet Ministry. This includes all activities falling within the ambit of the two foreign donor funded projects being implemented by MEPA.

1.16 Due to the lack of manpower and pressure of work within the Environmental Division some of the responsibilities of this Division, such as decentralisation of environmental functions to the regions, are carried out by the Secretary of State to the Minister for Parliamentary Affairs.

Finance division

- 1.17 The ultimate authority with respect to all financial management aspects of the Cabinet Ministry is vested with the Secretary to the Cabinet Ministry, who is also the Chief Accounting Officer. He is accountable to Parliament for all funds and contributions in kind disbursed to the Cabinet Ministry. All financial matters with regard to MEPA are entrusted to the Ministry Accountant.
- 1.18 There are two Project Accountants appointed on contract basis to assist the Ministry Accountant with regard to the financial matters of the respective projects. However, the Ministry Accountant who is appointed by the Central Government is accountable to the Chief Accounting Officer with regard to handling of all funds, including project funds. Appendix B to this Chapter sets out the structure of the Finance Division of MEPA.

Duty lists

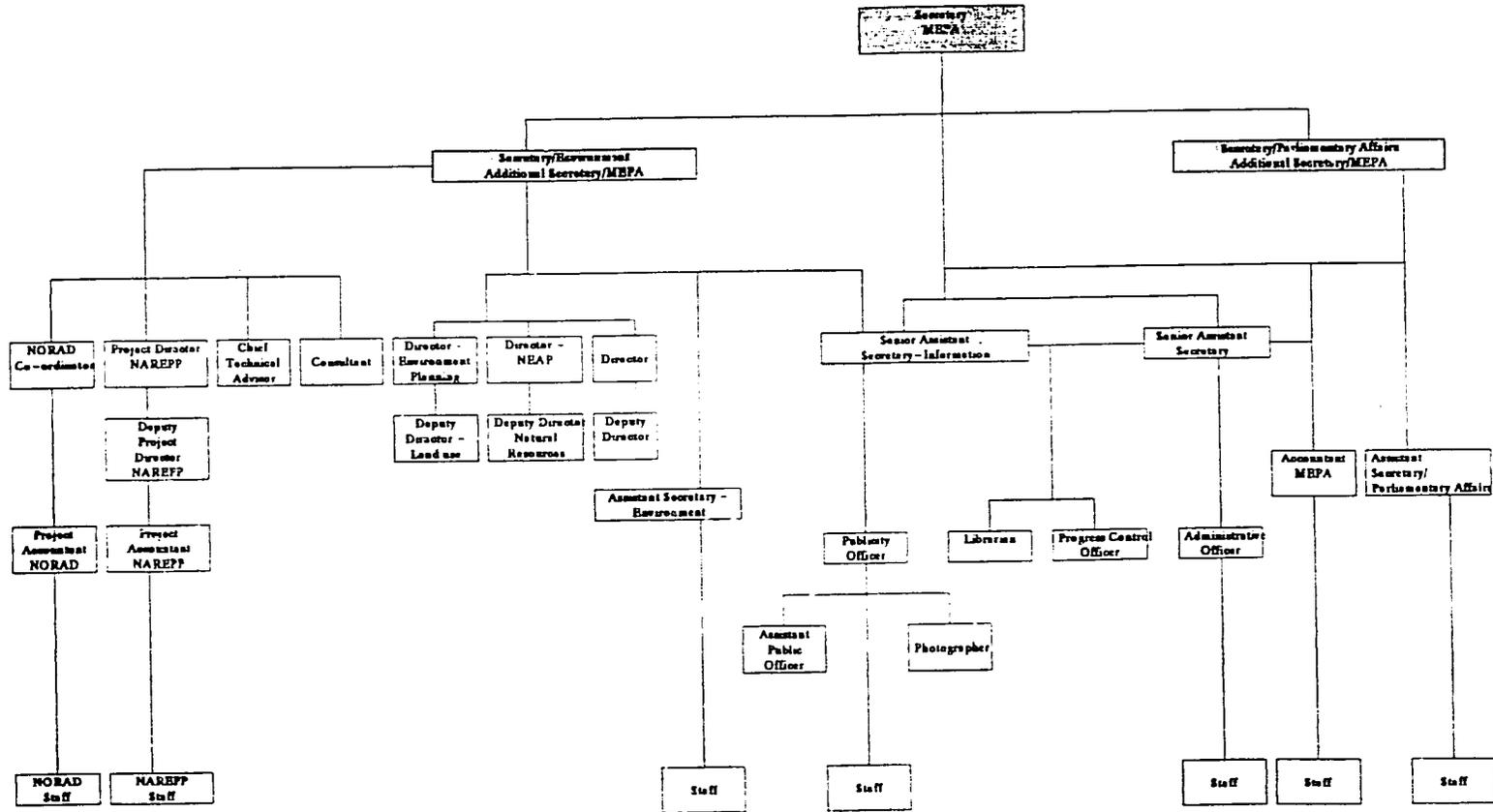
- 1.19 It is required under the Administrative Regulations of the Government of Sri Lanka that individual duty lists be issued to all Ministry employees. We observed in certain instances that duty lists issued were overlapping, with regard to responsibilities. This has resulted from similar duties being assigned to different personnel from time to time without reference to the original lists of duties, but these are being sorted out at the level of the secretaries where required.

Sources of funding

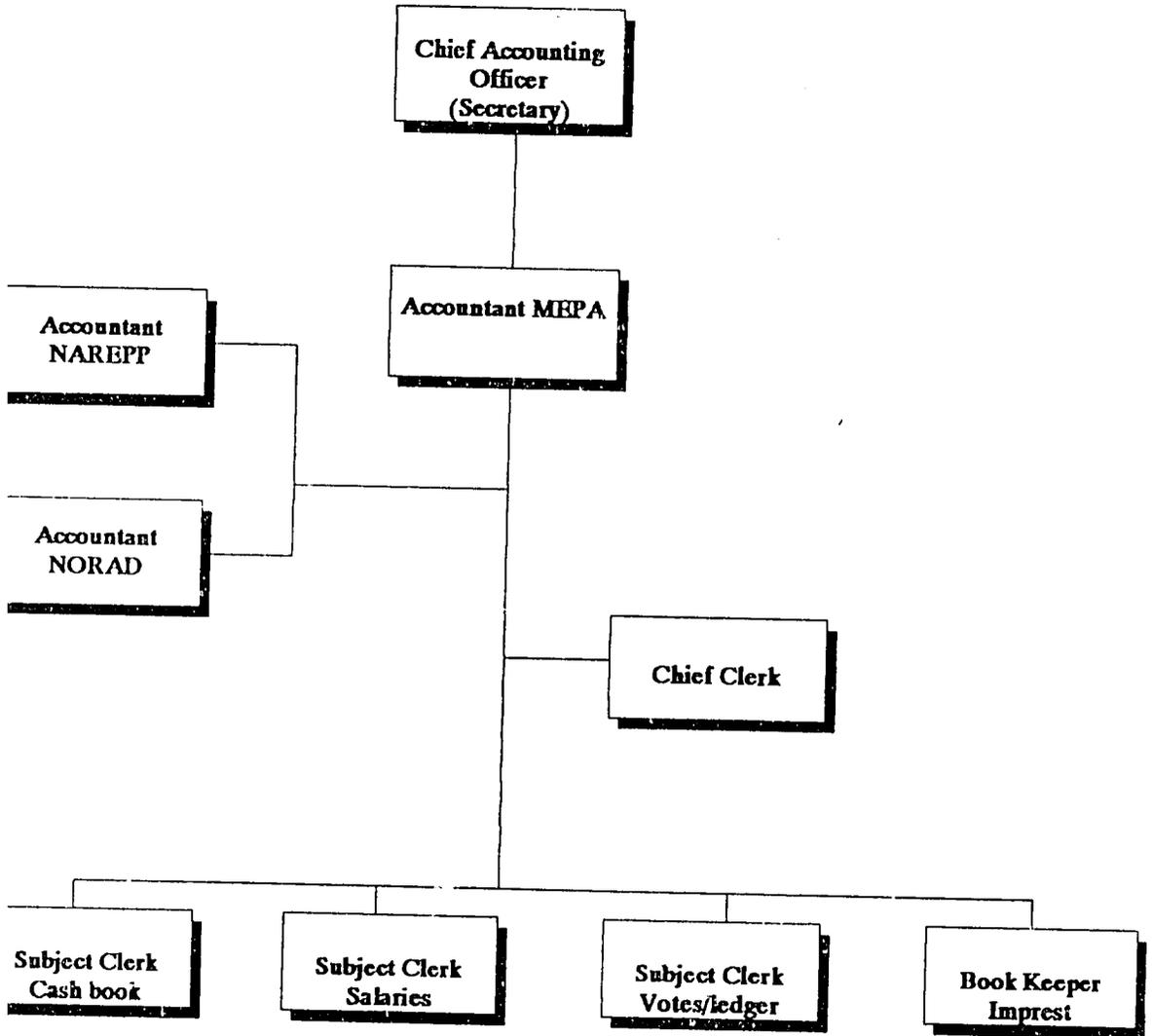
- 1.20 MEPA being a Ministry under the constitution is provided with funds from the Treasury to meet the cost of its activities. Further, MEPA receives funds from the Treasury as Host Country Contributions of projects funded by foreign donors.

1.21 As explained in paragraphs 4 and 5, MEPA also receives funds for two specific projects from USAID and NORAD.

ORGANISATION STRUCTURE OF MEPA



STRUCTURE OF THE FINANCE DIVISION OF MBPA



CHAPTER - 2

TASK - (B)

REVIEW AND COMMENT ON THE ADMINISTRATIVE AND MANAGEMENT CAPABILITY OF THE ORGANISATION. THE ADMINISTRATIVE AND MANAGEMENT CAPABILITY OF THE FINANCE DIVISION SHOULD ALSO BE ADDRESSED WITH PARTICULAR EMPHASIS ON THE MANAGEMENT OF THE AID PROJECT

Administrative and Management capabilities

- 2.1 The administrative and managerial aspects of the Ministry are governed by the policies, regulations and procedures set out in the Financial Regulations and Administrative Regulations laid down by the Government of Sri Lanka.
- 2.2 The ultimate authority for the administration of the Ministry is vested with the Secretary to the Ministry. The Secretary has the authority in appropriate circumstances to deviate from the procedures laid down if he is satisfied that such action is necessary in the public interest. The full reasons for doing so should be recorded and he should be able to justify his action. The experience and qualifications of the senior management are set out in the Appendix to this Chapter.
- 2.3 As shown in the Appendix, the key officials of the Ministry possess the required qualifications, and extensive experience in Public Service. We consider their administrative and management capability as sufficient to carry out the functions entrusted to them.

Finance division

- 2.4 The Accountant of the Ministry, Mrs I D I M Gunasekera, is a Class II Grade II Officer of the Sri Lanka Accountants Service. The Project Accountant of NORAD, Mr W S Fernando, is a Member of the Chartered Association of Certified Accountants (UK).
- 2.5 The Project Accountant for NAREPP, Mr J M J Peiris, possesses the intermediate qualification of the Institute of Chartered Accountants of Sri Lanka. The above personnel have extensive experience in accounting in the public sector.
- 2.6 We therefore, take the view that the Finance Division as a whole possesses administrative and management capability sufficient to carry on the required functions.

AID funds

- 2.7 International Resources Group (IRG), the contractor executing the NAREP project, is responsible to USAID for the proper use and control of the expenditure of the funds remitted by USAID.
- 2.8 The review of the administration and management capability of IRG, is considered outside the scope of this assignment which focuses on MEPA.

EXPERIENCE AND QUALIFICATIONS OF SENIOR MANAGEMENT

DESIGNATION	NAME	QUALIFICATIONS AND EXPERIENCE	APPOINTING AUTHORITY	EXPERIENCE IN PUBLIC SERVICE
Secretary to the Ministry of Environment Parliamentary Affairs (MEPA)	Dr D Nesiah	B.Sc (Maths) Ceylon MA (Econ) Sussex, MPA, Dr PA (Harvard) Also Additional Commissioner - General of Essential Services. Formally, Secretary to the District Ministry and Government Agent, Jaffna. Earlier head, Policy Analysis Unit, Sri Lanka Institute for Development Administration Recruited to the Ceylon Civil Service in 1959. Specialised area: population, migration, Nationalism, Feminism affirmative action and environmental issues.	Executive President	34 Years
Secretary-Environment and Additional Secretary (MEPA)	Mr S W P Bulankulame	B.A (Hons) M.A. (Geog) NZ, M.Phil (T&RP) London, FRTPI (London), FITP (Sri Lanka). Formerly, Chairman Urban Development Authority. Director Town and	Executive President	28 Years

EXPERIENCE AND QUALIFICATIONS OF SENIOR MANAGEMENT (CONTD)

DESIGNATION	NAME	QUALIFICATIONS AND EXPERIENCE	APPOINTING AUTHORITY	EXPERIENCE IN PUBLIC SERVICE
		Country Planning. United Nations Consultant. specialised area: Environment and Urban and Regional Planning		
Secretary - Parliamentary Affairs and Addition- al Secretary (MEPA)	Mr J G Keerthiratne	SLAS - Class I B.A (Hons) Formerly, Director Local Government Service Depart- ment	Executive President	28 Years
Senior Assistant Secretary - Administration	Mr W P W Weera- wardana	SLAS - class II. B.A (Hons) Class II Formerly, Chairman Ayurvedic Drug Corporation. Senior Assistant Secretary, Fisheries and Aquatic Resources and other appointments within SLAS	Cabinet of Ministers	26 Years
Director Planning	Mrs N Mohottala	SLAS - class I B.A (Hons) class I DIP in Public Management-SLIDA M.A Social Science Australia.	Public Services commission	26 Years

EXPERIENCE AND QUALIFICATIONS OF SENIOR MANAGEMENT (CONTD)

DESIGNATION	NAME	QUALIFICATIONS AND EXPERIENCE	APPOINTING AUTHORITY	EXPERIENCE IN PUBLIC SERVICE
		Formerly Senior Assistant Secretary - Ministry of lands Director, Land Development Department		
		Specialised area: project planning and environment - al management		
Director - Scientific Affairs	Miss P Batuwitige	SLScS - Class I National Dip in Technology-Civil Engineering; M Engineering, (Applied Hydrology) Sri Lanka; MSc (Engineering Hydrology) National University of Ireland; Member of the Institute of Engineers - Sri Lanka MIE (SL); Chartered Civil Engineer.	Public Services Commission	16 Years
		Formerly, Programme Officer - NORAD Project, MEPA Water Resources Engineer (MASL) Project Manager - Open University.		
		Specialised area: Hydrology Water Resources and Environmental Science		
Technical Consultant NAREPP	Mr U Sapukottuna	SLAS- class I B.A - (Hons) Post Graduate Dip Cambridge.	On secondment to the NAREPP	28 Years

EXPERIENCE AND QUALIFICATIONS OF SENIOR MANAGEMENT (CONTD)

DESIGNATION	NAME	QUALIFICATIONS AND EXPERIENCE	APPOINTING AUTHORITY	EXPERIENCE IN PUBLIC SERVICE
		Formerly Additional Secretary - Ministry of Agriculture.		
Project Director NAREPP	Mr K B G M Perera	B.A. Hons (Cey) M.A. (Econ) Hawaii Formerly, Director Ministry of Policy Planning; United Nations Consultant.	Secretary to the Ministry	30 Years
Coordinator - NORAD	Mr W S Perera	BSc (Cey) Dip in Ed MA Educational Planning MSc Curriculum Dev. Columbia-NY. Formerly, Commissioner of Examinations Specialised area: Project management and environment education	Secretary to the Ministry	19 Years
Chief Technical Advisor	Dr J Ratnasiri	B.Sc (Hons) University of Ceylon. MSc Electrical Engineering USA. PhD Electrical Engineering, USA, Fellow, Institute of Physics, Sri Lanka Formerly Dy Director Ceylon Institute of Scientific and Industrial Research		30 Years
Dy Director	Mr G Gamage	B.Sc class II Agriculture, MSc Forestry.	Public Service Commission	12 Years

EXPERIENCE AND QUALIFICATIONS OF SENIOR MANAGEMENT (CONTD)

DESIGNATION	NAME	QUALIFICATIONS AND EXPERIENCE	APPOINTING AUTHORITY	EXPERIENCE IN PUBLIC SERVICE
		Formerly, Assistant Director, Ministry of Land Irrigation and Mahaweli Development.		
Dy Director Environment	Mr H M B C Herath	B.Sc class II Botany MSc Forestry. Assistant Secretary, Conservation of Forests, Department of Forestry.	Public Service Commission	10 Years
Assistant Secretary Environment	Mr M M S Fernando	B.Sc Forestry. Msc, Dip in International affairs. Dip in Marketing.	Public Service Commission	10 Years
		Formerly Assistant Controller Department of Rubber Control		
Assistant Secretary, Information	Mr H M R B Herath	B.A (Hons) class II First in Law, Sri Lanka Law College. Formerly, publicity officer, Ministry of Justice and Ministry of Environment and Parliamentary affairs	Public Service	17 Years

CHAPTER 3

TASK - (C)

REVIEW, DOCUMENT AND COMMENT ON THE ACCOUNTING SYSTEM IN PLACE, ACCOUNTING RECORDS MAINTAINED, INTERNAL CONTROLS AND THE PAYMENT PROCEDURE (FLOW CHARTS MAY BE USED WHEREVER NECESSARY WITH ADEQUATE NARRATIVE EXPLANATIONS)

IN CONNECTION WITH THE ABOVE ALSO ASSESS THE ADEQUACY OF THE ORGANISATION'S INVOICE EXAMINATION CAPABILITY, PAYMENT PROCEDURES AND INTERNAL CONTROLS IN CONNECTION WITH APPROVAL AND PAYMENT OF INVOICES

Accounting system

- 3.1 The accounting system of the Ministry has been designed in accordance with the Financial Regulations of the Government of Sri Lanka.

Accounting for funds inflow

- 3.2 Funds received by MEPA can be classified into two categories based on the objective for which such funds are provided. They are:
- o Funds received to meet obligations of the Ministry. These consist of funds provided by the Treasury for servicing recurrent expenditure and for procurement of capital items.
 - o Project funds, which consist of grants provided by foreign Governments and the counterpart contribution from the Government of Sri Lanka.

Books of account maintained by MEPA

3.3 The books of account of MEPA are maintained in accordance with the provisions set out in FR 445. Books maintained are as follows:

- o Cash book
- o Votes ledger
- o Advances register
- o Pay ledger
- o Inventory book
- o Imprest ledger
- o Expenditure classification register.

Cash book

3.4 The cash book contains entries in respect of all receipts and payments.

Votes ledger

3.5 The votes ledger records the budgeted and actual expenditure, classified under the individual expenditure sub-heads. This enables the Accountant to control expenditure of the Ministry under the various sub-heads of the estimates. This record also indicates the funds available at any given time.

Advance register

3.6 All payments made in advance to officials of the Ministry to procure goods or services or for carrying out routine tasks are recorded in the advances register. The expenditure incurred as supported by suppliers invoices, cash receipts, evidence of goods received and other documents and the unspent amount refunded by the official are recorded to clear each transaction. These amounts are settled prior to closing of books of the Ministry, at the end of the financial year.

Pay ledger

3.7 The pay ledger contains the number of the sanctioned cadre for each class/grade, their names and the appropriate salary scales. Preparation of the monthly pay abstract is done by referring to the pay ledger.

Inventory book

3.8 Inventory book, records the receipt and issue of every article of Government property and stores. Three inventory books are maintained by the Ministry. They are:

- o Stock book to record consumable stores
- o Inventory record for capital items
- o Motor vehicles register.

Further, the Ministry maintains an Imprest Ledger and an Expenditure Classification Register to facilitate the classification and reporting of expenditure.

Accounting system of NAREPP

3.9 The accounting system of the NAREP Project has been structured to facilitate the recording and reporting of expenditure incurred in implementing the Annual Project Work Plan.

Accounting records maintained by NAREPP

3.10 The books of account maintained by NAREPP to record its transactions are as follows:

- o Cash book
- o Votes ledger
- o Journals

Cash book

3.11 The cash book contains entries made with respect to receipts and payments relating to the project.

Votes ledger

3.12 The votes ledger contains expenditure of the project, classified under the individual sub-heads. This enables the NAREPP Accountant to control the project expenditure in accordance with the work plan.

Journal entries raised by the Project Accountant

3.13 Journal entries are raised by the Project Accountant, when the executing agencies under NAREPP provide support services in the form

of staff. All payments such as allowances, travelling, holiday pay etc. are paid by the respective executing agency. A statement in this regard is sent to the project Accountant quarterly to update accounting records. The Project Accountant on receipt of this raises a journal entry in the following manner:

Debit - NAREPP account

Credit - Executing Agency account

3.14 A copy of this journal is sent to the Ministry Accountant who incorporates this in the monthly summary of accounts sent to the Treasury. A copy of the journal is also sent to the relevant executing agency.

Preparation of accounts of the Ministry

3.15 An annual set of accounts is not prepared for MEPA, in common with other Government Departments and Ministries. Instead, a year end summary of expenditure is submitted to the Treasury. The set of accounts maintained at the General Treasury for MEPA, as well as the two projects are not kept on commercial accounting principals. This is consistent with Government procedure.

3.16 A summary of accounts is prepared by the Accountant on a monthly basis giving details of the expenditure. This statement is sent to the Treasury for writing up their accounts. This statement is prepared on a cash basis.

Accounting for expenditure

3.17 The expenditure of the Ministry is regulated by the funds provided in the annual budget appropriation. The funds so provided are incurred on two programmes of expenditure. These programmes are:

- o General administration;
- o Protection of Environment and Parliamentary Affairs

Expenditure on general administration

3.18 The above category of expenditure is incurred on the upkeep and provision of services to ensure the effective functioning of two subject specific divisions of the Ministry. These expenses can be classified into two categories as follows:

- o Recurrent expenditure, which constitutes expenditure incurred on routine activities of the Ministry, such as personal emoluments, travelling, supplies, etc.
- o Capital expenditure, which constitutes expenditure of a non-recurrent nature such as purchase of motor vehicles, office equipment, etc.

Expenditure on Protection of Environment and Parliamentary Affairs

3.19 Expenditure on Protection of Environment and Parliamentary Affairs consists of expenses incurred on two Ministerial divisions existing within the Cabinet Ministry. These expenses can be classified into three categories, namely:

- o Recurrent expenditure,
- o Capital expenditure,
- o Project expenditure.

3.20 Recurrent expenditure and capital expenditure incurred under this programme are similar in nature to the expenditure mentioned in paragraph 3.18 above.

Project expenditure

3.21 Project expenditure relating to the Ministry can be classified according to its source. They are:

- o Expenditure of NAREPP and NORAD projects met out of Host Country Contribution.

- o Expenditure met out of Foreign Government Grants (i.e. NORAD).

Expenditure incurred by the Implementing Agencies

3.22 Expenditure incurred by the Implementing Agencies for the NAREPP project are met out of the consolidated fund account of the GOSL budget of the relevant agency. For such expenditure, prior approval has to be obtained from the coordinating committee of NAREPP. Expenditure met out in this manner is considered to be the Host Country contribution to the project. It must also be noted that all AID funds are channelled through the International Resources Group (IRG) and not through any other implementing Agency.

Internal control environment and segregation of duties

3.23 The organizational procedures relating to all transactions carried out by the Ministry are specified in the Financial Regulations. These procedures incorporate a comprehensive set of internal control procedures. The procurement, payment and payroll systems have been presented in flow chart form in Appendices A - C to this Chapter. Appendix D sets out details pertaining to the Delegation of Authority. The weaknesses observed by us are given in the following paragraphs.

Receipt of goods

- 3.24 The purchase clerk receives the items purchased and brings them to MEPA. Often, the purchased items are not handed over to the stores clerk. Instead, they are distributed to the persons ordering such items. The documents, however, are given to the stores clerk for the purpose of inventorising such purchases. No independent check is done to verify whether the items received correspond to the items ordered and paid for.
- 3.25 To overcome this, we recommend that all goods received be handed over to the stores clerk, who should raise a Goods Received Note (GRN). Further, the GRN together with the invoice and Purchase Order should be submitted to the Accountant at the time of payment to ensure that no payment is made for items not ordered.

Cheque payment procedure

- 3.26 Cheques, after signature by the two authorised signatories, are presently sent back to the person preparing them. As a result, it is possible for alterations to be made to cheques after signature.
- 3.27 Although, we did not notice any fraudulent payments due to this exposure, we recommend that the cheques should be kept away from the person preparing them, after they are signed. The cheques should be despatched directly to the payees after signature.

Payment procedures

- 3.28 The supplier invoices are not cancelled with a "PAID" stamp. As a result, those documents could be resubmitted to make a duplicate payment. Such duplicate payments could be the result of error or of fraud.

3.29 To control payments effectively we suggest that the following procedures be followed:

- o All documents should be cancelled with a "PAID" stamp within which there should be space to record the date and the number of the cheque.
- o The cancellation of the documents should be made by the person checking the payment voucher and authorising the payment. He should ensure that the documents had not been cancelled previously or used to make a previous payment.
- o Cheque signatories should ensure that the number and the date of the cheque being signed correspond with those on the supporting documents.

Filing

3.30 A subject file is opened for purchases of a material value. All documents and correspondence pertaining to that purchase are filed in that subject file. However, these files are maintained by several subject clerks and are not given an index. Therefore, difficulty is experienced in maintaining control over these files. Further, any files lost or destroyed will not be detected.

3.31 To retain control over the existence of files, we recommended that a control index be given. These indices should be recorded in a register, and maintained by a senior official. The register should also record the date of opening of the file, the subject, and the person in whose custody each subject file is kept.

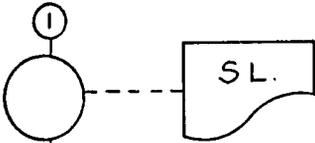
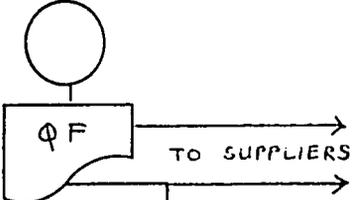
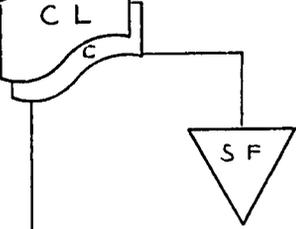
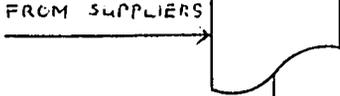
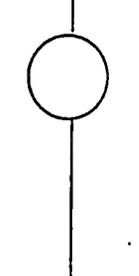
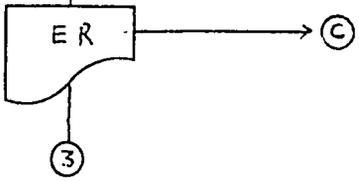
ABBREVIATIONS USED IN FLOW CHARTS

CB	Cash book(s)
CC	Chief Clerk
CL	Covering Letter
CR	Cheque Register
ER	Evaluation Report
FR	Financial Regulations
IM	Internal Memo
LOA	Letter of Appointment
LOR	Letter of Resignation
OP NO	Operation Number
PL	Pay Ledger
PO	Purchase Order
PP	Procurement Proposal
PS	Pay Sheets
PV	Payment Voucher
QF	Quotation Form
SAS	Senior Assistant Secretary
SF	Subject File
SI	Suppliers Invoice
SL	Supplier's List
SR	Supplier Receipt
TBR	Tender Board Report
VL	Votes Ledger

**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PROCUREMENT AND GOODS RECEIPT SYSTEMS**

Narration	OP NO	Page 1
<p>General Administration Department An IM requesting goods is raised and submitted to the Secretary.</p>	1	
<p>Secretary's Office On receipt of the IM from the General Administration Department, the Secretary raises another IM authorising the proposed procurement.</p>	2	
<p>General Administration Department On receipt of the IM the Senior Assistant Secretary (SAS) initiates procedures with regard to procurement.</p>	3	
<p>Note All procurement should be provided for in the budget appropriation; if not a supplementary vote should be passed in Parliament.</p>	4	

**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PROCUREMENT AND GOODS RECEIPT SYSTEMS**

Narration	OP NO	Page 2
<u>Tender Board</u>		
Suppliers are selected from the SL.	5	
Quotations are called from the selected suppliers, by sending a standard QF and a CL. A copy (C) of the CL is filed in the SF.	6	
Note	7	
The Tender Board consists of <ul style="list-style-type: none"> o Secretary o Accountant o Senior Assistant Secretary o An Executive appointed by the Secretary 		
<u>Evaluation Committee</u>		
Completed QFs are received from the suppliers.	8	
The quotations are evaluated by the evaluation committee of the Ministry. (This is an adhoc committee appointed by the Secretary)	9	
ER is submitted to the Tender Board.	10	

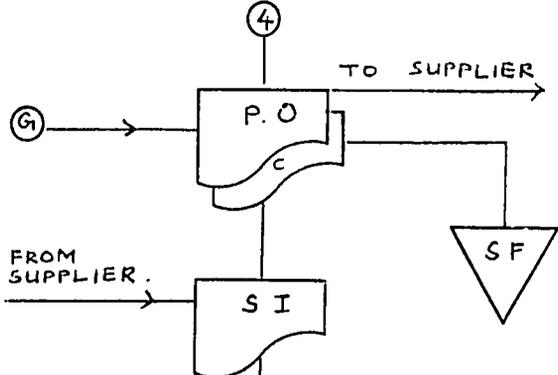
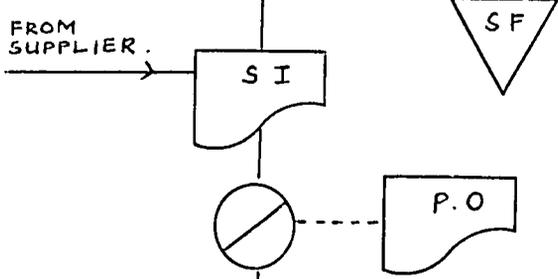
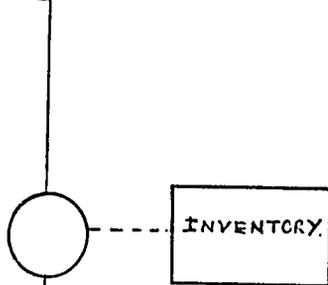
**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PROCUREMENT AND GOODS RECEIPT SYSTEMS**

Narration	OP NO	Page 3
<p>Tender Board</p> <p>A supplier is selected from the short list of suppliers submitted in the form of a ER by the Evaluation Committee .</p> <p>The TBR is then submitted to the Secretary for authorisation.</p>	<p>11</p> <p>12</p>	
<p>Secretary's Office</p> <p>Tender Board decision is authorised by the Secretary.</p> <p>The Secretary informs the General Administration Department about the decision and requests that a PP be prepared.</p>	<p>13</p> <p>14</p>	
<p>General Administration Department</p> <p>The Purchase Clerk prepares a PP by referring to the subject file. (SF).</p> <p>The PP is submitted to the Committee for Public Expenditure Controls (CPEC) of the Ministry of Finance for approval, in accordance with the Treasury circular PB/360/322.</p>	<p>15</p> <p>16</p>	

**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PROCUREMENT AND GOODS RECEIPT SYSTEMS**

Narration	OP NO	Page 4
<p><u>Committee for Public Expenditure Controls (CPEC)</u></p> <p>PP is approved by the CPEC.</p>	17	
<p><u>General Administration Department</u></p> <p>A PO is raised by the Purchase Clerk.</p>	18	
<p><u>Secretary's Office</u></p> <p>The PO is authorised by the Secretary.</p>	19	

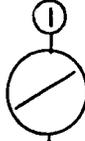
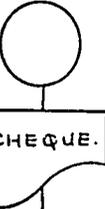
**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PROCUREMENT AND GOODS RECEIPT SYSTEMS**

Narration	OP No	Page 5
<p>General Administration Department The authorised PO is despatched to the supplier.</p>	20	
<p>The purchase clerk receives the goods and compares it with the PO.</p>	21	
<p>Goods are handed over to the Stores Clerk with the SI.</p>	22	
<p>Goods are inventorised by the Stores Clerk.</p>	23	
<p>The invoice is endorsed by the Stores Clerk indicating inventorisation.</p>	24	

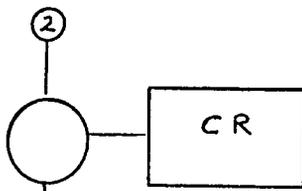
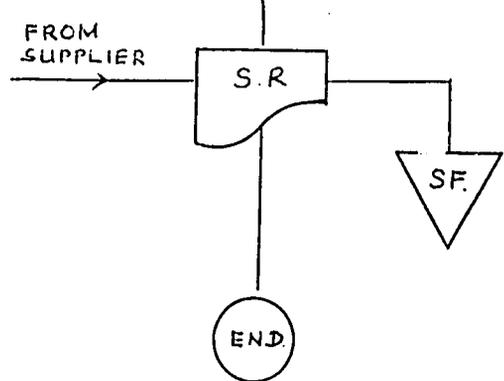
**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PAYMENTS CYCLE**

Narration	OP NO	Page I
<p>General Administration Department</p> <p>The Purchase Clerk raises the PV by referring to the endorsed SI.</p> <p>The PV and the SI are submitted to an authorised executive for approval.</p> <p>PV is approved by the authorised executive according to delegation of authority – FR 135 – 140 (refer Appendix D).</p>	<p>1</p> <p>2</p> <p>3</p>	
<p>Accounts Department</p> <p>The Accountant authorises the PV after ascertaining</p> <ul style="list-style-type: none"> o Inventorisation o Approval (i.e. whether FR 135 has been complied with) <p>Votes ledger clerk checks object folio in the VL to ascertain availability of funds and records the expenditure.</p>	<p>4</p> <p>5</p>	

**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PAYMENTS CYCLE**

Narration	OP NO	Page 2
Accountant checks and initials the VL.	6	
CB clerk checks PV for endorsement indicating availability of funds and enters amounts in the CBs.	7	
A cheque is drawn for the amount in the PV.	8	 
The Accountant refers the PV and initials the CB.	9	
The cheque is authorised by the Accountant.	10	
The cheque is signed by the authorised signatory who may be the <ul style="list-style-type: none"> o Administration Secretary or o Senior Assistant Secretary o Additional Secretary as specified by FR 135-140	11	 

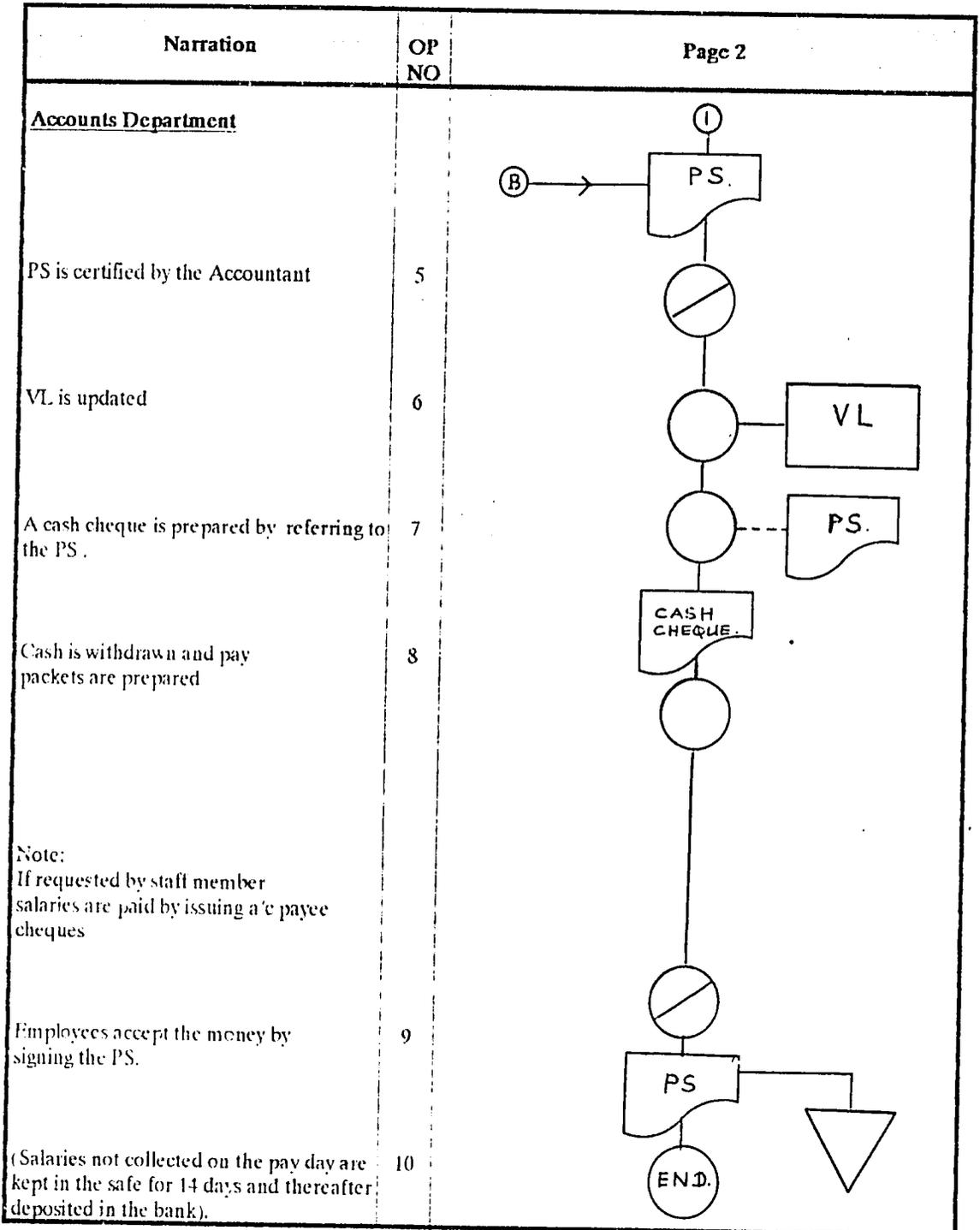
**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PAYMENTS CYCLE**

Naraation	OP NO	Page 3
Cheques are recorded in the CR.	12	
<p><u>General Administration Department</u></p> <p>The cheques are issued to the respective subject clerks who attach the C.I. etc. and hand over for postage.</p>	13	
Subject clerk acknowledges receipt of cheque on CR.	14	
Receipt is obtained from supplier acknowledging payment.	15	

**MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PAYROLL SYSTEM**

Narration	OP No	Page 1
<p>Accounts Department</p> <p>The PL is updated using copies of the LOA and LOR.</p> <p>Monthly PSs are prepared by the salary clerk based on the cadre remuneration stated in the PL.</p> <p>The Chief Clerk (CC) checks and initials the PS by referring to the PL.</p>	<p>1</p> <p>2</p> <p>3</p>	
<p>General Administration Department</p> <p>PSs are approved by the SAS.</p>	<p>4</p>	

MINISTRY OF ENVIRONMENT AND PARLIAMENTARY AFFAIRS
PAYROLL SYSTEM



Head 740 – Programm 1, Project 1 General Administration Protection of Environment & Parliamentary Affairs
Delegation of Authority under FR135 – 140 1992

Object	Sub-object	Description	FR 135 - Authorizing Officer	FR 135 - Approving Officer	FR 135 - Certifying Officer	Accountant
01	01	Personnel Emolument Holiday paymen (1) Staff officers (2) Other officers	Secretary SAS	S S A/SS	Accountant Accountant	Accountant Accountant
		Overtime Upto 10 Hrs. per week Upto 20 Hrs per week Over 20 Hrs. per week	SAS Addl. Secy's Secretary	A/SS SAS Addl. Secy's	Accountant Accountant Accountant	Accountant Accountant Accountant
	02	Travelling expenses Local Staff officers Others	Secretary SAS	Addl. Secy's A/SS	Accountant Accountant	Accountant Accountant
		Foreign All officers	Secretary	SAS	Accountant	Accountant
	03	Supplies and requisites Above Rs 75,000 Upto Rs 75,000 Upto Rs 50,000 Upto Rs 20,000 Upto Rs 5,000	Tender Board Secretary Addl. Secy's SAS A/S	Secretary SAS A/SS A/SS OA/AO	Accountant Accountant Accountant Accountant Accountant	Accountant Accountant Accountant Accountant Accountant
	04	Repairs & maintenance of capital assets Above Rs 75,000 Upto Rs 75,000 Upto Rs 50,000 Upto Rs 20,000 Upto Rs 5,000	Tender board Secretary Addl. Secy SAS A/SS	Secretary SAS A/SS A/SS OA/AO	Accountant Accountant Accountant Accountant Accountant	Accountant Accountant Accountant Accountant Accountant
	05	Transportation Communication Utility and Other service Above Rs 75,000 Upto Rs 75,000 Upto Rs 50,000	Secretary Addl. Secy SAS	Addl. Secy SAS A/SS	Accountant Accountant Accountant	Accountant Accountant Accountant
	08	Pension and Gratuity Salaries to MPP's staff Gratuities to MPP's staff	Secretary/PA	AS/PA	Accountant	Accountant
102	09	Buildings, Furniture, Fixtures Office Equipment, Etc Building Works Vehicle purchase Other Above Rs 75,000 Upto Rs 75,000 Upto Rs 50,000 Upto Rs 20,000	Tender Board Tender Board Tender Board Secretary Addl. Secy SAS	Secretary Secretary Secretary SAS A/SS A/SS	Accountant Accountant Accountant Accountant Accountant Accountant	Accountant Accountant Accountant Accountant Accountant Accountant
103	09	NORAD project Contribution to other Institutes Over Rs 500,000 Upto Rs 500,000 Upto Rs 100,000 Salaries to Staff Purchase of vehicle Over Rs 5,000 Upto Rs 5,000	S/EPA Addl. Secy Addl/SS Tender Board S/E	Addl. Secy SAS/PC NORAD/DP AS Secretary SAS	Accountant Accountant Accountant Accountant Accountant	Accountant Accountant Accountant Accountant Accountant
104	09	NAREPP Project Capital Expenditure Consolidated fund	S/E PA/S/E	SAS	Accountant	Accountant

CHAPTER 4

TASK - (D)

"REVIEW AND COMMENT ON THE INTERNAL CONTROL SYSTEM TO DETERMINE:

- (a) **THE ADEQUACY OF SEGRGATION OF DUTIES AND RESPONSIBILITIES IN THE FOLLOWING FUNCTIONAL AREAS:**
 - (1) **ACCOUNTING,**
 - (2) **PROCUREMENT (CONTRACTING),**
 - (3) **VOUCHER PAYMENTS,**
 - (4) **REPORTING; AND**
 - (b) **THE EFFECTIVENESS OF THE CURRENT INTERNAL CONTROL SYSTEM ON THE MANAGEMENT OF FUNDS**
-

Segregation of duties

4.1 The purchase clerk carries out the functions of:

- o Preparation and despatch of purchase order
- o Collection of goods and, in certain instances
- o Distribution of goods

For the reasons set out in paragraphs 3.24 and 3.25, we consider these functions incompatible.

Budgetary Control

4.2 The process of preparation and approval of budget estimates for the activities of MEPA is given as Appendix A to this Chapter.

- 4.3 The budgets prepared for MEPA are based on the broad objectives of the Ministry. As a result the actual expenditure may not match with the budget allocations between specific tasks and programmes. This gives rise to surpluses and shortfalls. But the total expenditure is not allowed to exceed the total budget. Due to this limitation the expenditure control by reference to budget line items is not effective.
- 4.4 MEPA as a Government Ministry which is also implementing certain programmes and AID funded projects, will be able to control expenditure more effectively, if budgets are prepared on Zero Base Budgeting (ZBB) principles. ZBB requires each project or cost centre to identify the objectives of the project or the cost centre and determine the minimum resources required to meet those objectives at different service levels. The cost of those resources are then totalled to determine at which service level each project/centre has to perform if the total costs are to be within funds available or budgeted. Under ZBB, allocation of funds will be linked to the objectives of each activity and therefore will be used most effectively to accomplish the objectives. The salient features of ZBB are given in Appendix B to Chapter 4.
- 4.5 During our discussions and interviews, it was revealed, that MEPA as a Cabinet Ministry has to change its programmes, policies and priorities according to political, economic and social factors. As a result budget line items are unavoidably exceeded or under utilised.

Performance Evaluation

- 4.6 MEPA as an enterprise operating in the context of a not for profit (service) organisation should base its performance evaluation on a different set of criteria to that of a commercial enterprise.
- 4.7 Further the benefits of some of the activities will arise over a long period of time and cannot be quantified in monetary terms immediately.

4.8 Therefore Ministry's performance is best assessed by a value for money (VFM) review.

4.9 The following paragraphs explain the basic elements of such a review.

Value for Money (VFM)

4.10 VFM reviews must cover the " three Es" - Economy, Efficiency and Effectiveness. Although these terms, in practice, tend to overlap in meaning, they could be defined as follows:

Economy The practice by Management of the virtue of thrift and good housekeeping. An economical operation acquires resources in appropriate quality and quantity at the lowest cost.

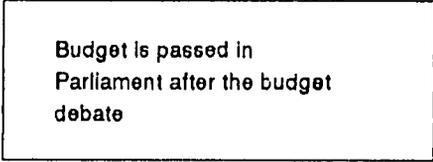
Efficiency Making sure that the maximum useful output is gained from the resources devoted to each activity, or alternatively, that only the minimum level of energy and work necessary is used for a given level of output.

Effectiveness Ensuring that the output from any given activity is achieving the desired result.

PREPARATION AND APPROVAL OF BUDEGET ESTIMATES

NARRATIVE	PROCESS
<p>Divisional budget estimates are prepared by 6 divisions</p> <p>General administration - Parllament any affairs - Environment - NAREPP - NORAD - Information -</p> <p>MEPA budget estimate is checked and approved by the Treasury after negotiation and thereafter included in the annual budget appropriation</p>	<pre> graph TD A[Divisional budget estimates are prepared and submitted to the Ministry Accountant] --> B[Ministry Accountant prepares the consolidated budget estimate for MEPA and submits to the Ministry Secretary] B --> C[The Secretary to the Ministry convenes a meeting of all Divisional Heads to discuss budgetary requirements.] C --> D[MEPA budget estimate is submitted to the Treasury and discussed with Treasury officials] D --> E[Appropriation Bill is presented in Parliament by the Finance Minister] </pre> <p>Divisional budget estimates are prepared and submitted to the Ministry Accountant</p> <p>Ministry Accountant prepares the consolidated budget estimate for MEPA and submits to the Ministry Secretary</p> <p>The Secretary to the Ministry convenes a meeting of all Divisional Heads to discuss budgetary requirements.</p> <p>MEPA budget estimate is submitted to the Treasury and discussed with Treasury officials</p> <p>Appropriation Bill is presented in Parliament by the Finance Minister</p>

PREPARATION AND APPROVAL OF BUDEGET ESTIMATES

<i>NARRATIVE</i>	<i>PROCESS</i>
<p>After the first, second and third reading the budget is passed in Parliament at which stage it becomes the Finance act for the forthcoming year.</p>	

The salient features of Zero Base Budgeting (ZBB):

- o Reassessing, planning and documenting requirements for resources to support operation in the coming year. This would include well defined work plans quantified in monetary terms, for each of the six departments which submit divisional budgets.

- o Presenting evaluating and discussing the requirements with the departmental heads on the basis of comparative cost effectiveness of different approaches and levels of spending, starting with the absolute minimum as base level.

- o Ranking requests for resources in order of priority for spending as a basis for deciding what plans to approve and for striking a budget.

CHAPTER 5

TASK - (E)

"REVIEW AND COMMENT ON THE CONTRACT MANAGEMENT CAPABILITIES AND PROCEDURES TO ADVERTISE, SOLICIT, NEGOTIATE, AWARD AND ADMINISTER CONTRACTS BOTH FOR COMMODITIES AND SERVICES.

WITH REGARD TO THE ABOVE, REVIEW AND COMMENT ON THE NATURE AND TYPE OF CONTRACTS EXECUTED BY THE ORGANISATION. IS CONTRACTING FOR SERVICES OR COMMODITIES A REGULAR AND CONTINUING FUNCTION OF THE ORGANISATION? IF NOT, IS THE PROCUREMENT TO BE UNDERTAKEN LIKELY TO BE A LIMITED OR ISOLATED EXPERIENCE WITH LITTLE OR NO INSTITUTIONAL BENEFIT WARRANTING USE OF THE HOST COUNTRY CONTRACTING MODE? IS THE ORGANISATION FAMILIAR WITH CONSTRUCTION CONTRACTING ? DOES THE ORGANISATION FUNCTION WITH REASONABLE EFFICIENCY AND RESPONSIVENESS TO SCHEDULE DEADLINES? ALSO, ARE THERE TECHNICALLY QUALIFIED PROCUREMENT OFFICIALS WHO ARE CAPABLE OF SOLICITING COMPETITION, EVALUATING, AND SELECTING CONTRACTORS?

FURTHER, IN CONNECTION WITH THE ABOVE, AN ASSESSMENT OF THE CONTRACTING MANUALS, REGULATIONS AND GUIDELINES SHOULD BE CARRIED OUT. THIS SHOULD INCLUDE DOCUMENTING THE TENDERING PROCEDURES OF THE ORGANISATION".

Contracting for services and commodities :

- 5.1 The contracting system is generally applicable, to all purchases of commodities and services, except for incidental purchases using petty cash not exceeding Rs 1,000/=
- 5.2 In respect of all purchases, quotations are called from a minimum of three registered suppliers. For this purpose, prior to the beginning of a new financial year MEPA calls for applications from suppliers through an (open) press notification. The suppliers are registered on the basis of the nature of commodity/service to be provided.
- 5.3 When purchases are to be made, quotations are called from the registered suppliers. Tender evaluation and authorisation limits are entrusted to senior officials and levels depending on the amount of expenditure as follows.

Upto a maximum of	Rs 5000	-	Assistant Secretary
	Rs 20,000	-	Senior Assistant Secretary
	Rs 50,000	-	Additional Secretary
	Rs 75,000	-	Secretary to MEPA
Amounts exceeding	Rs 75,000 and up to Rs 5 million	-	Ministry Tender Board
	Rs 5 million and above	-	Cabinet Tender Board

5.4 The Ministry Tender Board consists of three officials appointed by the Secretary to the Cabinet Ministry. The Cabinet Tender Board is appointed by the Cabinet of Ministers. In respect of procurements that are of a technical nature, an Evaluation Committee is appointed by the Secretary to the Cabinet Ministry to assist the Tender Board.

Contracts for services

5.5 MEPA enters into the following types of service contracts:

- o Rent
- o Security
- o Janitorial services

5.6 The contracts for these services are entered into for a period of one year and are generally renewable at the end of each year.

5.7 Apart from these, MEPA has not entered into any service or construction contracts. The procedure that should be followed when contracting for services is set out in Financial Regulations 685. There are no separate contracting manuals used by MEPA. However, the common procedures laid down in the Financial Regulations are often referred to and are complied with in contracting.

CHAPTER - 6

TASK - (F)

"REVIEW AND DOCUMENT THE INVENTORY CONTROL PROCEDURES OF THE ORGANISATION. THIS SHOULD INCLUDE THE INVENTORY CONTROL PROCEDURES AND THE COMMODITY ARRIVAL AND DISPOSITION SYSTEMS. ALSO REVIEW AND COMMENT ON THE ADEQUACY OF MAINTENANCE OF THE FIXED ASSETS REGISTERS OF THE ORGANISATION"

Inventory control procedures

- 6.1 MEPA is authorised to procure only items provided for in the printed estimate of the budget appropriation. IF under any circumstances MEPA proposes to purchase any high value items not included in the printed estimate, approval has to be sought from parliament in the form of a Supplementary Estimate.
- 6.2 The procurement procedure is carried out in accordance with the procedures set out in Appendices A - C of Chapter 4.

Receipt of goods

- 6.3 A subject file is created for each capital procurement. This file will contain all documents relating to the purchase. i.e. minutes of tender board meetings, quotations, evaluation report, purchase order, payment voucher (copy), approval of the Committee on Public Expenditure Control etc. These files are kept in the custody of the respective subject clerks. The goods are received by the purchase clerk and are inventorised by the stores clerk.

Issue of capital terms

6.4 At the time of issue of capital items from the inventory, the recipient (Departmental Head) signs against the inventory item entry made in the inventory ledger, to acknowledge the receipt of goods. (e.g. typewrites, telephones and other office equipment).

Issue of consumables

6.5 Recurrent items such as stationery are purchased quarterly from a registered supplier or a Government Department.

6.6 Such items are issued on the submission of monthly stationary requisitions by the Department Heads.

Inventory records maintained

6.7 MEPA maintains three sets of books to record and control its stock of capital items and consumables. These are;

- o A stock book - for consumables
- o Inventory record - for capital items
- o Motor vehicle register

6.8 The stock book and the inventory record for capital items are maintained by the stores clerk, while, the motor vehicle register is maintained by the subject clerk for transport.

6.9 In addition to the above records, the stores clerks also maintains a register for adhoc issues made to Department Heads during the course of the month.

Inventory records (IR)

- 6.10 Although an inventory record is maintained the details of the purchases and costs are not indicated. Further, no identification code is given for the assets purchased and any change in location of assets is not indicated in the IR.
- 6.11 We recommend that each inventory item be given an identification code which should be recorded in the IR. Further, the IR should also contain the following details.
- o Description of the items
 - o Cost
 - o Date of purchase
 - o Date of disposal
 - o Location of the item

Movement of inventory items

- 6.12 MEPA does not have a system to monitor movement of fixed assets between locations. Further, the IR contains only the initial location of the asset. As a result, a fixed assets verification would be a tedious, time consuming and difficult exercise.
- 6.13 We recommend that MEPA introduce inventory transfer forms to monitor the movement of assets. These should be authorised by a senior official and a copy issued as a source document to update the IR for the location of asset.

Physical verification of assets by the Board of Survey

- 6.14 The physical verification of assets of the Ministry is carried out annually by a Board of Survey appointed by the Chief Accounting Officer. The appointment of the Board of Survey and its powers and functions are set out in FR 756 and 757. The Board of Survey is charged with the function of verifying stores and to report on unserviceable items.
- 6.15 The Board of Survey consists of three officials of whom, two are Ministry officials independent of the stores department and an officer from another Government entity.
- 6.16 The findings of the Board of Survey are documented in the following forms as specified by FR.
- o Tr & A 66 - Verification of stores
 - o G - 47 Report on unserviceable stores

Report of the Board of Survey

- 6.17 The report of the Board of Survey is submitted to the Accountant, who will in turn to submit one copy to the Auditor General. The Accountant is required to investigate into any discrepancies, shortages or losses and submit a report in this respect to the Chief Accounting Officer.
- 6.18 The Chief Accounting Officer has the authority to take disciplinary action, to order adjustments to be made in the books and also decide on write off of inventory items. Such action taken by the Chief Accounting Officer is recorded on form Treasury and Audit (Tr & A) 66 and a copy should be forwarded to the department concerned to be filed as supporting documents for the adjustments made. A copy of this should also be sent to the Auditor General. All unserviceable items identified by the Board of Survey are disposed of by calling for

quotations through a newspaper advertisement. Motor vehicles are disposed of by way of a Government auction.

Assets purchased out of USAID funds

6.19 No record is maintained at MEPA of the assets purchased out of USAID funds by International Resources Group (IRG) and distributed to the various executing agencies. We have not reviewed the system of control over these assets.

CHAPTER 7

TASK - (G)

REVIEW AND COMMENT ON THE COMPLIANCE WITH LAWS AND REGULATIONS BY THE AGENCY

Compliance with laws and Regulations

- 7.1 In carrying out an examination of the accounting systems, internal control procedures and administrative functions of the Ministry, we have gained comfort with regard to the Ministry's compliance with the laws and regulations.
- 7.2 The main laws and regulations governing the activities of MEPA are summarised below:
- o The constitution of Sri Lanka which governs the functions of MEPA as a Cabinet Ministry.
 - o Enactments and Ordinances, which relate to the various activities and laws promulgated by Parliament e.g. The National Environmental Act, Coastal Act, The Land Act, The Forests Act etc.
 - o Financial Regulations and Administration Regulations and the Establishment Code which govern all financial and administrative aspects of MEPA.
 - o Presidential directives and Cabinet decisions, taken from time to time.
- 7.3 During our review, we did not notice serious breakdowns in complying with these laws and regulations.

CHAPTER 8

TASK - (H)

"REVIEW THE ADEQUACY OF THE RECORDING AND REPORTING PROCEDURES OF THE COUNTERPART CONTRIBUTION UNDER THE AID GRANT"

- 8.1 Under the Project Grant Agreement a sum equivalent to US \$ 7,135,000 should be contributed by the Host Country for the implementation of the NAREP project. This component of the Project Funds is used for the following purposes.
- o Payment of import duty component with regard to imports made by the International Resources Group (sub contractor) on behalf of NAREPP.
 - o Payment of salaries and other benefits provided to staff of NAREPP.
 - o Financial assistance to Executing Agencies for implementation of programs approved by the coordinating committee of NAREPP.
 - o Payments made for support services provided by MEPA and the Executing Agencies for NAREPP. Such support services include the following:
 - oo A percentage of salaries, travelling and holiday pay for officials who are involved in the project.
 - oo A percentage of fuel expenditure of vehicles of officials involved.
 - oo Other contributions made in kind such as electricity, stationery etc.

- 8.2 The basis of apportionment of the above expenditure has been decided upon by the coordinating committee of NAREPP.

Administration of Host Country Contribution

- 8.3 The Host Country Contribution, also referred to as Counterpart Funds, is administered by the Ministry through the Project Accountant of NAREPP. These funds are provided in the form of an imprest of Rs 500,000 which is made to the Project Accountant by the accountant of the Ministry. Funds so provided are utilised for the purposes mentioned in paragraph 8.1 above.

Reporting of Host Country contribution

- 8.4 The Accountant NAREPP submits an expenditure statement with the supporting payment vouchers attached, when requesting a reimbursement of imprest from the Accountant of the Ministry. Any advance payments made to the Executing Agencies are also indicated in this statement.
- 8.5 The expenditure reported by the Project Accountant is incorporated in the summary of accounts prepared by the Ministry Accountant. The summary of accounts is submitted on a monthly basis to the Director - Accounts and Payments, General Treasury who records the expenditure of the Ministry.
- 8.6 Further, a quarterly summary of expenditure relating to the Host Country Contribution is to be submitted by the Ministry to the AID Office. AID regulations require a quarterly summary of expenditure relating to AID funds to be submitted to the Director - Debts, of the Treasury, in a prescribed format. This reporting procedure is not presently being followed by MEPA, as, adequate information regarding expenditure incurred by IRG is not received. The reporting format to record the actual expenditure incurred by the GOSL line agencies is now being prepared and is in draft form. We intend disclosing the document or the contents along with a letter as soon as same is made available for our perusal.