

## Head 154 – Report of the Auditor General on the Ministry of Rural Economic Affairs - Year 2016

The audit of the Appropriation Account and Reconciliation Statements, including the financial records, books, registers and other records of the Ministry of Rural Economic Affairs - Head 154 for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary of the Ministry on 10 November 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and reconciliation statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

### 1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

## 2. Accounts

### 2.1 Appropriation Account

#### Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs.10,370.43 million and out of that Rs.8,302.98 million had been utilized by the end of the year review. Accordingly, savings out of the total net provision made for the Ministry amounted to Rs.2,067.45 million or 19.94 percent. Details are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs.millions	Rs.millions	Rs.millions	
Recurrent	942.47	937.73	4.74	0.50
Capital	9,427.96	7,365.25	2,062.71	21.88
<b>Total</b>	<b>10,370.43</b>	<b>8,302.98</b>	<b>2,067.45</b>	<b>19.94</b>

## 2.2 Advances to Public Officers Account

### Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account of the Ministry and the actual amounts under Item No.15401 are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.millions	Rs.millions	Rs.millions	Rs.millions	Rs.millions	Rs.millions
18.00	17.72	8.00	11.36	80.00	30.15

## 2.3 General Deposit Account

The total of the balances of three Deposit Accounts under the Ministry as at 31 December 2016 was Rs.1.12 million. Details appear below.

Deposit Account No.	Balance as at 31 December 2016
	Rs.millions
6000/0000/00/0001/0129/000	0.02
6000/0000/00/0002/0181/000	0.72
6000/0000/00/0013/0140/000	0.38
<b>Total</b>	<b>1.12</b>

## 2.4 Audit Observation

The Appropriation Account and the Reconciliation Statement for the year ended 31 December 2016 of the Ministry of Rural Economic Affairs had been prepared satisfactorily subject to the audit observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant observations out of the audit observations included in that Management Audit Report appear in paragraph 3 herein.

## 3. Material and Significant Audit Observations

### 3.1 Non-maintenance of Registers and Books

It was observed during audit test checks that the Ministry had not updated the Register of Fixed Assets shown below while certain other registers had not been maintained.

Type of Register	Relevant Regulation
(i) Register of Fixed Assets	Treasury Circular No.842 dated 19

	December 1978
(ii) Register of Fixed Assets for Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 dated 28 November 2002
(iii) Register of Electric Equipment	Financial Regulation 454(2)
(iv) Register of Official Telephones	Financial Regulation 845(1)
(v) Register of Personal Emoluments	Financial Regulation 453(1)

### **3.2 Appropriation Account**

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#### **3.2.1 Budgetary Variance**

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The following observations are made.

- (a) The entire net provision totalling Rs.42.70 million made available for 05 Objects had been saved without utilizing at all.
- (b) Net Provision provided for 33 objects, savings after utilizing had been ranging from 10 per cent to 99 per cent of the said provision. It was revealed that provisions savings prevailing due to provision made for some objects that relevant activities had not been completed fully, and over provision for some objects.

### **3.3 Reconciliation Statement on Advances to Public Officers' Account**

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The following deficiencies were observed in respect of the Reconciliation Statement as at 31 December 2016 on the Advances to Public Officers' Account No.15401 submitted to audit.

- (a) There was a differences of Rs.567,822 between the Reconciliation Statement as at 31 December 2016 and Treasury Printouts out of that difference Ministry had identified the reason only for Rs.4,782 and action had not been taken to rectify those even as at 13 June 2017.
- (b) The arrears of loan balance recoverable from the 8 officers who were transfer as at 31 December 2016 totaling to Rs.263,558. Even though those loan balances outstanding over a period ranging from 06 month 02 years, Ministry was not able to recover those balances even at the end of the year under review as per the National Budget Circular No 118 dated 11 October 2014.
- (c) Recoverable loan balance as at the end of the year under review was Rs.229,104 from two officers who retired in 2014 and 2016 and Ministry was unable to recover those loan balance as per the Section 4.2.5 of the chapter XXIV of the Establishment Code even as at the date of 13 June 2017.
- (d) Action had not been taken to recover a loan balance of Rs.103,469 recoverable from two officers who had vacated their posts as per Section 4.5 of the chapter xxiv of the Establishment Code.

### **3.4 Assets Management**

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The following deficiencies were observed during the course of audit test checks of the assets of the Ministry.

- (a) It was stated that in paragraph 03 of the President's office letter No.CA/1/17/1 dated 14 May 2010, only maximum 03 Number of vehicles (Motor vehicle/Jeep/Double cab) can be allocated for use and security purpose of Deputy Minister but contrary to that a pool vehicle also had been assigned for him.
- (b) According to the bill settled by the Minister personally to National Live Stock Resource Board had used two pool vehicles from 26 February 2016 to 07 May 2017.
- (c) Out of 51 vehicles used by the Ministry 49 vehicles had not been registered in the name of the Ministry even as at the end of the year under review.

#### **3.4.1 Idle and Underutilized Assets**

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Action had not been taken to register 03 vehicles which were not owned by the Ministry valued at Rs.7,300,000 in the name of the Ministry even as at 31 December 2016. Those vehicles removed from running for the period of 08 months to 21 months and kept idle in the premises of the Ministry.

#### **3.4.2 Assets given to External Parties**

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It was observed that Ministry had released some assets to external parties in an irregular manner. Details appear below.

- (a) Rent agreement had not been signed by the Ministry for the buildings which had been given to other institutions and Divisional offices. Building rent had not been charged even by the month of June 2017. As per the assessment reports obtained on 07 June 2017 total monthly recoverable rent was Rs.152,500 from buildings which had been given from April 2015. Up to the date of 31 December 2016 from April 2015 rental income that should be collected (for 21 months) by the Ministry had been Rs.3,202,500 but action had not been taken to collect those rent even by the date of 30 June 2017.
- (b) Ministry had paid totaling Rs.1,295,357 for the period of April 2015 to 31 December 2016 as electricity, water, security service charges and rates for those buildings. Even by the date of 30 June 2017 out of that expenses Rs.402,835 or only 31 per cent of expenses had been recovered.

#### **3.4.3 Verification of Vehicles**

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Verification of vehicles of the Ministry had not been conducted for the year under review even at the date of 10 November 2017.

#### **3.5 Unsettled Liabilities**

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Out of the provision for 14 objects total savings after utilization had been only Rs.241,311. However at the end of the year under review savings out of the provision of those objects Rs.6,004,628 and incurred liabilities exceeded totaling Rs.6,245,739.

### 3.6 Non-compliances

#### Non-compliance with Laws, Rules and Regulations

Instances of non-compliances with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance
<b>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>	
(i) Financial Regulation 756 and 757	Annual board of survey had not been conducted.
(ii) Financial Regulation 1646	The Daily Running Charts and Monthly Summary Reports relating to 26 vehicles of the Ministry for the period of January 2016 to November 2016 and 12 vehicles relevant for month of December had not been furnished to audit.
<b>(b) Public Accounts Circulars</b>	
Paragraph 3.13 of the Circular No.251/2016 dated 17 October 2016	Details of capital expenditure and relevant reports for the year 2016, had not been furnished to Department of Public Accounts even by the date of 20 April 2017.
<b>(c) Public Administration Circulars</b>	
Paragraph 2.11 of the Circular No.41/90 dated 30 October 1990	Consumption of fuel of the vehicles of the Ministry had not been tested once in 06 months.

### 3.7 Implementation of Projects Under Domestic Financing

#### 3.7.1 Delay in Implementation of Projects

The following observations are made.

- (a) A sum of Rs.2,000 million had been provided in annual budget estimate under the Ministry of Rural Economic Affairs in 2016 to fix the market price and to minimize the late harvest damage by constructing 05 cool rooms monitored by the private sector had been planned to complete within one year from 2016 January to 2016 December. As per the action plan of the Ministry this project under Development and Planning Division. Relevant construction had not been commenced even by 26 June 2017.

In this regard following deficiencies revealed,

- (i) Ministry had invited 11 members for a committee of feasibility study on 05 February 2016 relevant to the construction of 05 cool rooms. The first committee meeting of the feasibility study had been held on 10 February

2016. For that meeting all together 13 members had participated including invited 11 officers and 02 others. Relevant Minister also participated for this meeting. At this meeting it was decided only 02 cool rooms to be constructed for 07 identified crops in two areas as a pilot project.

- (ii) Feasibility study committee appointed on 10 February 2016 had met two occasions on 10 February 2017 and 30 March 2017. Even though the Ministry had requested feasibility report in 05 times in writing from the committee it had been furnished on 10 August 2016. Only the Committee Chairman had signed the report and other members had not signed it and report had been submitted including 06 suggestions.
- (iii) After approval the project, again an another feasibility report had been forwarded on 28 August 2017. But in this report the following very necessary feasibility areas had not been mentioned.
  - 1. Technical Feasibility
  - 2. Operating Feasibility
  - 3. Legal Feasibility
  - 4. Financial Feasibility

- (b) As per Government Procurement Guideline 2.3.1(a) before commencing Procurement procedure of the relevant project assessment for environment effect and social effect should be taken it had not been complied within this regard. In this regard secretary of the Ministry had informed to audit that such an assessment is not necessary for this project.

### **3.7.2 Non – Implementation action of the Projects**

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It was observed in audit test check that out of the project which were implemented by the Ministry the projects under the Sabaragamuwa Province Animal Production and Health Department Veterinary Medical Office at Rambukkana and Daraniyagala in Kegalle District and Pelmadulla, Opanayaka, Kuruwita, Ayagama, Niwithigala, Godakawela and Kahawtta in Rathnapura had not been implemented.

- (a) Establishment of reproduction farms, Project.
- (b) Environmental friendly piggery control development project.
- (c) National food production program. (Small scale herd reproduction farm program)
- (d) Promotion of liquid milk consumption project. (Implement program of quality milk production in small scale milk farms)

### **3.7.3 Weak Supervision on Implementation of project**

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As per the physical audit carried out in Sabaragamuwa Province it was observed when implementing projects government funds had been misused due to the lack of supervision Instance are given below.

- (a) A sum of Rs.100,000 had been given to a beneficiary in Mawanella veterinary area to buy the goat and 10 she goats. Following observations are made on physical verification carried out in this regard.
- (i) Money had been taken fraudulently by showing the goats which owned by other person.
  - (ii) Beneficiary was a person who owned a building material sales outlet and the Animal Development Consultant in Mawanella Veterinary office, had shown another person as an owner of the herd of goat. It was stated that another two persons including the beneficiary had maintained the farm as a partnership.
  - (iii) The person who involved in this transaction had not maintained a goat reproduction farm or herd of goat. The relevant place has no space to maintain a farm and it was a commercial area. As such it was stated that sales man had sold two goats for Rs.43,000 to the beneficiary and four goats had been given to look after and he was also a partner of that farm.
  - (iv) Although as per the report prepared by the veterinary office, estimated cost for 11 animals were Rs.369,450 according to the statement of the sales man, he had received Rs.43,000.
- (b) A beneficiary in a Mawanella veterinary area, had been given Rs.100,000 to buy 10 she goats. It was mentioned that when buying those animals, 06 he goats had been sold for Rs.66,240 but two salesman had stated that they had not sold goats to anyone and their signatures bearing in the letters given were not their signatures. It was observed that money had been obtained by using forged names and signatures.

### 3.8 Performance

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 According to the Annual Budget Estimate and the Action Plan of the year 2016, observations on the progress of the Ministry are given below.

(a) Activities not Executed Adequately

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 Out of the institutions which were due to implement under the Ministry such as Rural Regenerate Fund, Rural Economic Regenerate Fund (Financial), Janadiriya Fund (Gramodaga Mandala Fund) had not been in operation even within the year 2016.

(b) Planning

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 The following observations are made.

- (i) Correct decision couldn't be taken by supervising the performance report due to the deficiencies of preparation of the action plan.
- (ii) As per the performance report physical progress of 06 activities relevant to 06 activities had been ranged from 03 per cent to 33 per cent.
- (iii) Under the facilitation and promotion of liquid milk consumption project (small scale milk farms quality milk production upgrading programs) 20 farmers had been selected from one district. Accordingly it had been selected 40 beneficiaries from Ratnapura Kegalle 02 district and planned to provide

provision for buying two cows or equipment for each beneficiary. A provision of Rs.1,200,000 had been estimated for them. However only 41.5 per cent had been utilized from the provision made.

### **3.9 Establishment and Supervision of Economic Centers**

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#### **3.9.1 Action taken contrary to main activities**

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The Special Economic Centers had been initiated with the objectives of selling the agriculture products of the farmers directly, implementation of price mechanism through competition for the production by making infrastructure facilities needed to link producers, wholesale vendors and consumers directly. However, sufficient evidence in respect of procuring the competitive price expected thereof to the producers and implementation of efficient fair price mechanism for consumers had not been furnished to audit.

#### **3.9.2 Economic Centers**

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At the audit test check carried at relating to Economic Centers following observation are made.

(a) **Presentation of Financial Statements**

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In terms of the public Finance Circular No PF/423 dated 22 December 2006 the financial statements of the Economic Centers should be furnished to the Auditor General within two months after the end of the financial year, four Economic Centers in Colombo and Gampaha districts 08 financial statements from year 2008 to 2016 had not been furnished even by 30 June 2017. Further, financial statements by 12 centers also been furnished with the delay ranged between 03 months to 2<sup>1</sup>/<sub>2</sub> years to the audit.

Embilipitiya Economic Center which had been established on 05 February 2003 had not furnished Financial statements from the year 2003 to 2016.

(b) **Recovery of Trade Stall Rent**

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Rent relating to trade stalls in Economic Center at Thambuthegama had been revised from September 2016. As tenants had not paid their rent from 31 December 2016 according to that revision a sum of Rs.3,026,750 was in arrears. Similarly, an imposed as this amount Rs.548,800 also had been in arrears. Ministry failed to recover this arrears even as at the end of the year under review.

(c) **Economic Centers Not Commenced**

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Construction activities had been started at Killinochchi and Ampara Economic Centers in the year 2011 and 2013 and Rs.96.7 million and Rs.29.2 million had been incurred, respectively and finished the work in the year 2013 and 2014. These Economic Centers had not been commenced even as at 31 December 2016.



(d) Constructed Economic Centers hand over to the other Institutions

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Three Economic Centers which were constructed without carrying out feasibility study spending Rs.136 million had been handed over to the Local Government Authorities and other institutions by 31 December 2016.

(e) Economic Centers not functioning

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Kandahandiya Economic Center 25 stall rooms had been commenced on 25 January 2006 and incurred Rs. 21 million was not functioning as at the end of the year under review. It had been requested to use as agrarian product exchange center and to establish a police station by Ministry of Law Order and Southern Development Ministry under Agrarian Development Department.

(f) Special Economic Center scheduled to be Constructed in Denipitiya "Pola" ground at Weligama

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Construction activities had been halfly finished by spending Rs.6.9 million out of the Treasury Provision in 2014. A committee had been appointed to furnish an observation report about the economic center. That committee had reported that it was not necessity of developing this place as a economic center. Action was being taken to handover this center to Department of Southern Local Government and expected objective had not been achieved by spending Rs.6.5 million.

### 3.10 Human Resources Management

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**Approved and the Actual cadre**  
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The position of the cadre as at 31 December 2016 as follows.

Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excess
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(i) Senior Level	33	30	03	-
(ii) Tertiary Level	03	02	01	-
(iii) Secondary Level	695	612	83	-
(iv) Primary Level	51	59	-	08
(v) Other(casual/Temporary/ Contract Basis	04	04	-	-
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<b>Total</b>	<b>786</b>	<b>707</b>	<b>87</b>	<b>08</b>
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Following observation is made.

Ministry had failed to obtain the formal approval even by the end of the year under review regarding the recruitment of excess employees.