

Report of the Auditor General on Head 135 - Ministry of Plantation Industries – Year 2016

The audit of the Appropriation Account, Revenue Account and the Reconciliation Statements including the financial records, registers and other records of the Head 135, Ministry of Plantation Industries 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 of Plantation Industries on 03 July 2017. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the Accounts and the 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 Reconciliation Statements in accordance with the provisions of Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, and the Public Finance and Administrative Regulations. This responsibility includes the 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 Provisions and Expenditure

The total net provision made for the Ministry amounted to Rs. 9556.69 Million and out of that, a sum of Rs. 7465.67 Million had been utilized by the end of the year under review. Accordingly, the savings of the total net provision had been Rs. 2091.03 Million or 21.88 per cent. Details appear below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. Million	Rs. Million	Rs. Million	
Recurrent	2949.85	2704.62	245.23	8.31
Capital	6606.85	4761.05	1845.80	27.94
Total	9556.70	7465.67	2091.03	21.88

2.2 Revenue Accounts

----- Estimated and Actual Revenue -----

The Ministry had prepared Revenue Estimates totalling Rs. 900 Million in respect Code No 20.02.01.04 for the year 2016 and Revenue totalling Rs.767.33 Million had been collected. It was 85 per cent of the estimated Revenue. Details appear below.

Revenue Code	As at 31 December 2016			Shortfall as a percentage of Estimated Revenue
	Revised Estimated Revenue	Actual Revenue	Shortfall	
	Rs. Million	Rs. Million	Rs. Million	
20.02.01.04	900.00	767.33	132.67	14.74

2.3 Advances to Public Officers Accounts

----- Limits Authorized by Parliament -----

The limits authorized by Parliament for Advances to Public Officers Accounts Code No 13501 relevant to the Ministry and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
20.00	12.47	6.50	9.29	55.10	26.18

2.4 General Deposit Accounts

The balances of the 04 General Deposit Accounts under the Ministry as at 31 December 2016 totalled Rs. 1.23 Million. Details appear below:

General Deposit Account Number	Balance as at 31 December 2016
	Rs. Million
6000/0000/00/0019/0016/000	0.90
6000/0000/00/0020/0008/000	0.17
6000/0000/00/0018/0067/000	0.15
6000/0000/00/0002/0108/000	0.01
Total	1.23

2.5 Audit Observation

The Appropriation Account and Reconciliation Statements of the Ministry of Plantation Industries for the year ended 31 December, 2016, had been prepared satisfactorily, subject to Audit Observations appearing in the Management Audit Report referred to in paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in that Management Audit Report appear in paragraph 3.

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 maintained certain registers and that certain registers had not been maintained in an updated manner, as shown below.

Type of Register	Relevant Regulation	Observations
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(a) Register of Fixed Assets	Treasury Circular No 842 of 19 December 1978	Not updated
(b) Register of Liabilities	Financial Regulation 214	Not maintained.
(c) Attendance Register of the Procurement Committee and the Technical Evaluation Committee.	Guideline 2.11.2 of the Government Procurement Guide Lines	Not maintained.

3.2 Appropriation Account

Budgetary Variance

The following observations are made.

- The entire net provision of Rs. 443.10 Million appropriated for 3 Capital Objects had been saved.
- Due to over provisioning for 26 Objects, the savings after utilization of the provisions ranged from 15 per cent to 97 per cent of the net provisions.
- The entire provision totalling Rs. 162.2 Million appropriated as supplementary provisions for 3 objects had been saved.

3.3 Revenue Accounts

The functions relating to the preparation of Revenue Estimations for Revenue Code No 20.02.01.04, collection, accounting and presentation of Revenue Accounts had been devolved on the Secretary of the Ministry as the Revenue Accounting Officer. The following

deficiencies/shortcomings were observed during the course of test audit checks done relevant to this Revenue Code.

- (a) Lands had been given for common amenities such as infra-structure facilities from lands of 571 estates belonging to plantation companies. The Ministry was not in possession of evidence relevant to the delimitation/boundaries to correctly identify the extent of these vested lands.
- (b) Rents had not been collected since the year 1992 for 45 estates belonging to the 03 companies, namely Agarapatana, Udapussellawa and Elkaduwa.
- (c) Even though the lease income based quarterly had to be paid before the dates stipulated in the agreement according to the lease agreement entered into with the regional plantation companies, lease rents amounting to Rs.145,532,511 had been paid after a delay of periods ranging from 01 month to 07 months from the stipulated date, in the payment of lease rents for the years 2017/2016 and 2016/2015, in respect of the Hapugatenna, Elpitiya, Chilaw and Kurunegala Plantation Companies.

3.4 Reconciliation Statement of the Advance to Public officers Account

According to the Reconciliation Statement bearing object/code No. 13501 furnished to audit, while balances as at that date totalled Rs. 1,175,543, these balances had been outstanding for periods ranging from 01 year to 32 years.

3.5 Good Governance and Accountability

3.5.1 Preparation of Financial Statements on an accrued basis

The Ministry had not prepared Financial Statements in addition to the Appropriation Account in accordance with clause 9 of Circular No. 252/2016 dated 19 December 2016 of the Director General of Public Finance.

3.5.2 Assets Management

The following deficiencies were observed in the course of test audit checks done in respect of the assets of the Ministry.

(a) Conduct of Annual Boards of Survey

According to the report of the Annual Board of Survey as at 31 December 2016, it had been reported that certain assets had not been taken into the inventory.

(b) Assets given to external parties

The Ministry had released 04 motor vehicles to the Rubber Development Department and the Thurusaviya Fund.

3.6 Non-compliances

----- Non-compliance with laws, rules, regulations etc. -----

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

Reference to laws, rules, regulations etc -----

Non compliance -----

(a) **Statutory Provisions**

Cabinet decision dated
11 November 2009

Even though the approval of the golden shareholder had to be obtained prior to sub leasing, the approval of the Secretary to the Treasury as the shareholder had not been obtained when 18 blocks of land belonging to 08 provincial plantation companies had been subleased to 14 companies during the years 2014 and 2015.

(b) **Financial Regulations of
the Democratic Socialist
Republic of Sri Lanka**

Financial Regulation 175
(2)

It had not been possible to collect the lease rental of Rs.310,241,909 relevant to the year under review. Also out of the revenue of Rs.144,356,993 estimated for Agalawatta, Kotagala and Kahawatta companies, not a single installment had been collected.

(c) Public Finance circular No
02/2015 dated 10 July
2015

No action had been taken in respect of 3 vehicles over 10 years after registration, which had been identified for disposal.

3.7 Foreign Aid Projects

Out of the provisions of Rs.885.9 Million estimated for 02 foreign aid projects in the year 2016, a grant of Rs.306.5 Million had been received for one project only. Even though the agreement for the other project had been signed on 26 April 2016, Rs.441.4 Million apportioned for foreign grants for the year under review had not been utilized.

3.8 Performance

The observations on the progress of the Ministry according to the Annual Budget Estimate and Action Plan for the year 2016 are given below.

- (a) Even though the objective of the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board is the control of the fragmentation of tea, rubber and coconut estates, the number of applications for fragmentation and approvals for these were on the increase.
- (b) After the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board had given approval for the vesting of land conditionally, the Board of Directors had not taken follow up action to inquire whether the respective conditions are being followed.
- (c) The approval of the Cabinet of Ministers had been received on 10 November 2010 by Cabinet Memorandum No.10/2588/437/010, to reduce and amend to 5 acres the limit of 10 acres for coconut lands imposed by the Tea, Rubber and Coconut Estates (Control of Fragmentation) Act. However, up to 15 February 2017, the date audited, necessary action had not been taken to implement the respective amendment.
- (d) It had not been examined whether the approval of the Board had been obtained in authorizing the fragmentation of lands of Local Government Institutions.
- (e) The Tea, Rubber and Coconut Estates (control of fragmentation) board had not published the regulations on the execution of the relevant functions in the gazette paper and the approval of the parliament had not been obtained in terms of section 12(8) and section 24 of the control of land fragmentation Act.
- (f) Taking into special consideration the rapid increase in the fragmentation of coconut estates, the timely requirement of taking steps to safeguard the crops by revising the Act incorporating amendments to minimize the shortcomings of the Act, had not been fulfilled.
- (g) Even though at the 128th board meeting of the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board held on 06 April 2016, it had been decided to appoint a committee of the Board of Directors to take action in respect of the lands for which applications had been received for fragmentation, and that it would be appropriate to take a decision after a field inspection carried out by three or more members of the Board of Directors, this proposal had not been implemented.
- (h) For the Weligama Coconut Leaf Wilting and Leaf Rot diseases eradication programme, the number of trees destroyed in the Districts of Galle, Matara and Hambantota from the year 2008 to year 2016 had been 288,683. Even though compensation of Rs.305,414,680 had been paid and other expenditure totalling Rs.75,363,281 had been incurred, the institution had not been able to introduce a successful variety of coconut which could face this disease or to totally eradicate this disease.

- (i) From the year 2012, the Survey Department of Sri Lanka had been assigned the surveying of an extent of 182,284.54 hectares land out of 260,000 hectares of land situated throughout 15 Administrative Districts. 31,435.12 hectares of land (16.6 per cent) in 7 Districts had been surveyed by 31 December 2016. While an amount totalling Rs.9.09 Million had been incurred for this purpose, the utilization of provisions had been at a level as low as 22.7 per cent.
- (j) Further, while surveying in respect of 45,726.65 hectares in 12 Districts assigned for surveying to the Survey Department of Sri Lanka had not commenced, the extent of land not surveyed in the Districts where survey work had commenced ranged from 52.9 per cent to 91 per cent.
- (k) Out of the 189,284 hectares of land assigned for surveying from the year 2008 to the year 2016, only 90 maps had been given in respect of 15,382.93 hectares of land.
- (l) While surveying in respect of fourteen (14) estates belonging to regional plantation companies had been completed by 31 December 2016, it has been observed that there was a shortfall of 389.49 hectares of land between the extent of land assigned for surveying to the Survey Department and the balance extent of land remaining after surveying had been done. Action had not been taken in respect of this reduced extent of land.
- (m) A HCCP Machine (Chemical Mixing Machine) had been obtained for Rs.16.05 Million for mixing chemicals under the project for the development of strategies to control damages caused by the tea mite through a bio chemical process proposed to be implemented during the years 2016-2018. While the anticipated physical progress of the project had not been reported, a successful cure for damages caused by the stem burrowing mite had not been found.

3.9 Transactions of a contentious nature

Even though it had been notified that it was not necessary to establish the Tea, Rubber and Coconut Estates (Control of Fragmentation) Board as a separate institution in accordance with Cabinet Decision dated 10 June 2009, a Chairman had been appointed to the Board and an amount totalling Rs.1,093,800 had been incurred in that behalf for salaries and fuel allowances during the year 2016.

3.10 Deviation from the Government Procurement Procedure

In the total cost estimate of Rs.7,247,100 in respect of the contract entered into with the Ministry for interior partitioning of the Ministry office, even though timber partitioning had been for 14.50 square feet, as a result of it being changed to 21.75 square feet, no approval had been obtained to increase the total cost estimate by 49 per cent. Payment vouchers were not submitted to audit, in respect of the payment of Rs.4,354,111 for the first bill of the contract.

3.11 Losses and Damages

The observations on losses and damages observed during the course of audit test checks are given below.

- (a) The amount that could not be covered from the losses and damages caused to 03 vehicles was Rs.4,844,050.
- (b) Action had not been taken to recover from the parties responsible the losses sustained as a result of the loss of items in the stores in the year 2012, valued at Rs.232,500.

3.12 Uneconomic Transactions

The particulars of transactions entered into devoid of economy revealed during the course of test checks are given below.

- (a) A contract had been entered into for Rs.7,143,752 (without VAT) for the modernization of office accommodation of the Ministry office, which was in a usable condition, maintained in the Ministry of Plantation Industries.
- (b) Even though the Internet Connection System (ILL) used by the Ministry of Plantation Industries had been enhanced within a short period of time from 1Mbps to 3 Mbps in December 2014, and from 3 Mbps to 5 Mbps in the year 2015, there was no sufficient reason to increase the capacity. Due to this, even though the Internet expenditure for the year 2015 was Rs.1,684,995, it had become Rs.2,530,997 in the year 2016, thereby increasing it by Rs.846,002, that is, by 50 per cent, and no internal controls had been introduced to prevent the misuse of the Internet.
- (c) During the years 2014-2015 the soil conservation subsidy had been given to all tea small holders coming under the category of small holdings of ¼ acre and less than 1 acre of 8 Regional Zones of the Tea Small Holdings Authority. Even though an increase of raw leaf by an additional 10 Million kilograms and an increase of Rs. 9,010 Million in foreign exchange were anticipated, these targets had not been achieved.

3.13 Management Weaknesses

The following weaknesses were observed during the course of test audit checks.

- (a) Rs.124,303,707 had to be collected as arrears of lease rental from the year 2009 to the year 2015 from the Kurunegala Plantation Company. Even though by 31 December 2016 only Rs.7,501,974 had been collected, action taken to recover the balance Rs.116,801,733 had been at a weak level.
- (b) Even in the year 2016, action had not been taken to recover the arrears of lease rental revenue of Rs.4,800,000 due from the Talawakelle Plantation Company as at 31 December 2015.
- (c) In accordance with the decision taken on 01 August 2016 at the first board meeting of the Board of Management of the Kapruka Fund, it had been decided to get back the

unspent money given to zonal societies, and to give same to primary societies. Accordingly, out of the Rs.20,895,000 given from the year 2011 to 31 December 2013, up to 31 December 2016, only Rs.2,092,861 had been recovered and Rs.18,802,139 was due to be recovered.

- (d) In accordance with Section 21 of the Kapruka Fund Act No 31 of 2005, Financial Statements had not been prepared and submitted to audit in respect of the year ending 31 December 2016. Further, even though according to paragraph 20 of the Act, it had been notified that all movable and immovable property which had belonged to Kapruka Societies are vested in the Fund with effect from that date, reports about the balances of Kapruka Societies as at 31 December 2016 had not been obtained by the Fund.
- (e) As a result of the non-utilization of the building obtained on rent for the Plantation Management Monitoring Division on 18 August 2016, Rs.2,250,000 paid in that behalf had been fruitless.
- (f) Rs.25,000 had been paid monthly to a watcher to operate the generator used in case of a sudden power breakdown in the rented out building.
- (g) Even though an expenditure of Rs.373,563 had been incurred to conduct two training workshops for the enhancement of the productivity of the plantation sector during the year 2016, up to 17 February 2017 action had not been taken to deploy the respective Officers for monitoring activities in the plantation sector.

3.14 Human Resources Management

Approved Cadre and Actual Cadre

The position on the cadre as at 31 December 2016 had been as follows:

Category of employees	Approved Cadre	Actual Cadre	Number of Vacancies	No in excess
(i) Senior Level	29	24	05	-
(ii) Tertiary Level	04	03	01	-
(iii) Secondary Level	580	541	39	-
(iv) Primary Level	65	71	-	06
(v) Other (Casual/ Temporary/ Contract basis)	04	01	03	-
Total	682	640	48	06