

Report of the Auditor General of the Rubber Development Department - Head 293 - Year 2016

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 293 – Rubber Development Department 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 Director General of the Department on 03 July 2017. The audit observations, comments and findings on the accounts and 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 and the Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are 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. The 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 Department amounted to Rs.1,384.80 million and out of that Rs.1,074.55 million had been utilized by the end of the year under review. Accordingly, the savings out of the net provision of the Department amounted to Rs.310.25 million or 22.40 per cent. Details are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of the Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	315.30	298.87	16.43	5.21
Capital	1,069.50	775.68	293.82	27.47
Total	1,384.80	1,074.55	310.25	22.40

2.2 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.29301 of the Department and the actual amounts 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
19.00	17.76	11.00	16.88	60.00	37.76

2.3 Imprest Account

The balance of the Imprest Account No. 7002/0000/00/0300/0016/000 of the Department as at 31 December 2016 amounted to Rs.6.70 million.

2.4 General Deposit Account

The balances of 05 General Deposit Accounts of the Department as at 31 December 2016 totalled Rs.6.62 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2016
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	Rs. Millions
6000/0000/00/0001/0105/000	0.06
6000/0000/00/0002/0145/000	0.51
6000/0000/00/0013/0100/000	1.91
6000/0000/00/0016/0091/000	3.95
6000/0000/00/0018/0095/000	0.19

	6.62
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2.5 Audit Observation

The Appropriation Account and the Reconciliation Statements of the Rubber Development Department for the year ended 31 December 2016 have 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 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 Department had not maintained the following Registers and certain Registers had not been maintained properly in the updated manner.

Type of Register	Relevant Regulation	Observation
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(a) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002	Not updated

(b)	Register of Official Telephones	Financial Regulation 845(1)	Maintained incompletely.
(c)	Register of Motor Vehicles	Financial Regulation 1647	Not maintained

3.2 Reconciliation Statement of Advances to Public Officers Account – Item No.29301

According to the Reconciliation Statement presented to Audit, the balances that remained outstanding as at the end of the year under review totalled Rs.747,319 and those outstanding balances remained over periods ranging from 01 year to 05 years. These outstanding loan balances included the balances totalling Rs.112,770 recoverable from 12 officers who had gone on transfer from the Department and balances totalling Rs.107,010 recoverable from 06 officers who had been interdicted and who had deceased and retired.

3.3 Annual Performance Report

Even though the Department should table the Performance Report in Parliament within 150 days after close of the financial year in terms of the Public Finance Circular No. 402 of 12 September 2002, those Reports relating to the year 2016 had not been tabled in Parliament even by 27 June 2017.

3.4 Assets Management

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

(a) Idle and Underutilized Assets

A Lorry and a Jeep valued at Rs.550,000 and Rs.400,000 respectively had remained idle over a period between 01 year and 5 years.

(b) Conduct of Annual Boards of Survey

Action on the shortages and excesses of goods in official quarters pointed out in the Reports of the Board of Survey for the year 2016 had not been taken in terms of the Financial Regulations.

(c) Irregular use of Assets belonging to other Institutions

Three motor vehicles valued at Rs.10,350,000 owned by the Ministry of Plantation Industry were being utilized over a period of one year without vesting in the Department.

3.5 Performance

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

- (a) Even though the expected extent of lands had been estimated as 7,000 hectares for replanting and new planting of rubber in the small rubber estates and plantation sector, plantation of rubber had limited to 1,183 hectares in extent due to the decline in the price of rubber. As such, replanting and new planting of rubber had been carried out only in 17 per cent out of the expected extent of lands.
- (b) Even though 830 hectares of lands in extent had been estimated for cultivation of interim crops in traditional and non-traditional areas of rubber plantation, cultivation of interim crops had been limited to 139 hectares of lands. As such, cultivation of interim crops had been carried out only in 17 per cent out of expected extent of lands.
- (c) Fixing of rain guards had been planned for 4,000 hectares of lands for Plantation Companies and rubber small holders and permits had been issued to 3,000 hectares out of the said extent and further, subsidies had been granted to 2,635 hectares for fixing of rain guards. As such, the extent for which the rain guards could not be fixed as expected, had been 34 per cent.

- (d) Even though it had been planned to supply 500,000 rubber seedlings with a view to planting them in Moneragala and Ampara District, the number of seedlings supplied stood at 88,170. As such, 82 per cent out of the expected number of rubber seedlings had not been supplied.

3.6 Deficiencies in the Operation of Bank Accounts

According to the Bank Reconciliation Statements prepared by the Department for December 2016, the value of cheques which was issued after elapse of a period between 06 months and 01 year, but not submitted for payments, amounted to Rs.109,687.

3.7 Transactions of Contentions Nature

Certain transactions entered into by the Department had been of contentious nature. It was revealed in audit test checks that a guaranteed price had been proposed to be paid on the purchase of rubber from rubber small holders under 05 methodologies from 15 October 2014 to 30 September 2015 according to the budget proposals of the 2015. Accordingly, a guaranteed price totalling Rs.2,049 million had been paid by the Department in the year 2015. Moreover, matters observed in audit test checks carried out in this connection in the year under review are given below.

- (a) According to the second methodology from 24 December 2014 to 10 February 2015, when the rubber traders could not sell rubber for guaranteed price for which they had purchased from **original** suppliers, they had been paid the difference of the guaranteed price and it was further observed that the difference of guaranteed price had been over paid for 8,100 kg of rubber by Rs.445,500 with dividends at a rate of Rs.10 per kilogramme.
- (b) Even though a sum of Rs.2,009,817 paid on the basis of fake information, out of the sum of Rs.16,380,661 paid to sales agent under second methodology, should be recovered again, it had not been so done.

- (c) In the first methodology of payment of guaranteed price (from 15 November 2014 to 23 December 2014), the difference between the guaranteed price and the rubber market price had been directly paid to the farmer. In the second methodology, payments for the producer had been made based on the quantity of rubber purchased by paying guaranteed price by the final producer. Stock taking, existed as at 15 November 2014 and 20 December 2015 and maintenance of proper registers therefor had not been carried out by all rubber purchasing institutions with permits as at the date of implementation of guaranteed price and in transferring from the first methodology to second methodology. As such, in the comparison of quantity of rubber purchased and sold within the relevant period by an agent which was subjected to audit, 46,329 kg of rubber had been sold than the quantity purchased. Further, that quantity of rubber had been purchased at a low price from the farmer without paying the guaranteed price (under the first methodology) and as such, the guaranteed price had to be paid twice to the Government for the same quantity of rubber.
- (d) In the examination of the payment of guaranteed price under the fifth methodology from 01 July 2015 to 30 September 2015, a sum of Rs.7,443,769 had been paid to 77, 459 kg of rubber without confirming in terms of the Circular No.2015/02 of 30.06.2015 of the Department whether the purchase of rubber in three trade institutions (from RC 14 Reports) had been made from rubber small holders themselves.

3.8 Irregular Transactions

Certain transactions entered into by the Ministry had been devoid of regularity. Several such instances observed are given below.

(a) Deviating from the Government Procurement Guidelines Procedure

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- (i) In terms of Guideline 7.11.1 of the Procurement Guidelines, a table indicating the conformity of the bidder with main provisions of technical criteria should be prepared with the bid evaluation report. Nevertheless, action had not been so taken in purchasing office equipment valued at Rs.9,834,717.

(ii) Even though it had been mentioned in the procurement documents that supplying of goods should be made within 21 days by the relevant institutions in purchasing office equipment valued at Rs.9,834,717 for Rubber Development Officers, goods had been supplied after a delay of 60 days exceeding the due period.

3.9 Uneconomic Transactions

Out of the contract amount of Rs.1,389,400 made for erecting a boundary fence for the Padiyathalawa Nursery, an expenditure of Rs.1,121,107 had become fruitless due to failure in erecting boundary posts and breaking boundary posts by elephants.

3.10 Management Weaknesses

A total sum of Rs.13,213,595 had to be paid to a private institution due to use of private Lorries for the transportation of 351,595 rubber seedlings to Moneragala and Ampara areas and to the Rubber Research Institute instead of using Lorries belonging to the Department.

3.11 Human Resources Management

Approved and Actual Cadre

The position of cadre as at 31 December 2016 had been as follows.

Category of Employee	Approved Cadre	Actual Cadre	No. of Vacancies	Excess
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(i) Senior Level	30	25	05	
(ii) Tertiary Level	16	03	13	
(iii) Secondary Level	364	318	56	
(iv) Primary Level	72	67	05	
(v) Other (Casual/Temporary/Contract Basis)*	-	10	-	10
Total	482	423	79	10
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- * Ten Management Assistant Officers who served in the Tea Shakthi Fund had been attached to the Department from 01 October 2016 and those officers had not been recruited properly to the Department.