

Report of the Auditor General on Head 135 - Ministry of Plantation Industries – Year 2017

The Appropriation Account and the Reconciliation Statement under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 and a Revenue Account relevant to the revenue code included in the Table 3.1.2 of the Annual Budget Estimate were presented to Audit by the Ministry of Plantation Industries. The financial and physical performance reflected by those accounts and the reconciliation statements were audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and Administrative Regulations.

1.3 Audit Scope

The audit of Ministry of Plantation Industries– Head 135 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 19 October 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, accounts, reconciliation statements and performance reports presented to Audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.4 Audit Observation

The audit observations of the Ministry of Plantation Industries for the year ended 31 December 2017 revealed in audit appear in Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.10 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 127 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 127	Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
----- Financial Regulations -----	-----	-----
127 (1) (a) Planning the financial work so that the business is transacted with correctness and financial propriety.	Deficiencies in the Action Plan	2.1.1
127 (1) (b) A system should be evolved providing adequate controls over expenditure and the collection of revenues.	1. Management activities. 2. Non-compliance. 3. Deficiencies in Human Resource Management.	2.5 2.10 2.11
127 (2) Existing items of expenditure , as well as proposals for new or increased expenditure in the Department under his control, are closely examined in the Ministry from the point of view of economy and efficiency.	1. Failure to achieve the expected level of output. 2. Projects not commenced despite being allocated provisions .	2.1.2 (a) 2.1.2 (b)

		3. Projects without progress despite release of funds.	2.1.2 (c)
		4. Performance of foreign funded projects.	2.2.1
		5. Performance of domestically funded projects	2.2.2
		6. Execution of procurement process.	2.3.1
127 (3)	All cases of doubt or difficulty are referred to him so that he May bring his own administrative experience and judgement to bear on them.	1. Failure to utilize the assets owned by the Government with optimum efficiency	2.4 (a)
		2. Assets provided for external parties	2.4 (b)
127 (4)	Appropriation Accounts are duly rendered by each of his Accounting Officers, and examined at the Ministry before he signs them; and that important differences in the Estimates and the actual expenditure are critically investigated by him.	1. Presentation of Annual Performance Reports after delays	2.1.3 2.9
		2. General Deposit Account	
127 (5)	Important variations between departmental Estimates and expenditure receive critical examination at the Ministry.	1. Failure to utilize the provision made.	2.6 (a)
		2. Allocation of overprovision.	2.6 (b)
		3. Making provisions through supplementary estimate allocations	2.6 (c)

127 (6) Collection of Revenue or other Government dues for which Accounting Officers are responsible is closely watched and examined by the Ministry.

Deficiencies in 2.7 the Revenue Accounts.

Deficiencies in 2.8 the Advances to Public Officers Account

2. Material and Significant Audit Observation

2.1 Performance

2.1.1 Planning

In terms of Public Finance Circular No.01/2014 dated 17 February 2014, an Action Plan had been prepared including 09 key functions of the Ministry for the year 2017. Nevertheless, the Time Schedule which should be implemented in order of priority and performance indicators of the activities had not been stated by estimating expected output/ outcome of those activities. As such, despite being utilized provisions of Rs.2,852.8 million for 32 various projects/programmes for the implementation of key functions indicated in the Action Plan, it was not possible to establish that the above expected performance had been achieved.

2.1.2 Non-performance of activities

The following observations are made

(a) Non-achievement of expected output

- (i) Having made provisions of Rs.75 million by a supplementary estimate during the year under review, a sum of Rs.48.9 million thereof had been spent for a high yielding coconut plant production project. Nevertheless, in the selection of qualitative trees, the selected land owners had disliked to provide seed coconuts from those selected coconut trees and as such, it had not been possible to achieve the expected coconut plant production during the year under review.
- (ii) Out of 2,587 hectares of lands relating to which prepayments had been made at Rs.150,000 per hectare for replantation of tea Under the Smallholder Tea and Rubber Revitalization Project during the year under review, primary works relating to tea planting had been commenced only in 20.12 hectares of lands.
- (iii) Under the Upcountry Smallholder Tea Estate Related Rural Agricultural Access Roads Rehabilitation Project, agreements had been entered into for rehabilitating 140 access roads during the year under review. Nevertheless, 88 access roads only had been rehabilitated.

(b) Projects not commenced despite the allocation of provisions

It had not been implemented two projects for granting relief to tea and rubber smallholders, a project for granting financial assistance to the employees of the regional estates companies, and the construction of automated trade centre and the settlement of the ownership of 02 estates with buildings belonging to the Rubber Research Institute, proposed to be commenced by procuring Rs.259.2 million through the supplementary estimates during the year under review had not been implemented during the year.

(c) Projects without progress despite the release of funds

The following observations are made.

- (i) It had been planned to construct and complete 80 tube wells under small hydropower projects during the year under review for the enhancement of efficiency of the tea smallholders. Nevertheless, the necessary provisions amounting to Rs.59.03 million for that purpose had been made to the Water Supply and Drainage Board on 06 December 2017. Similarly, preliminary activities of the project only had been initiated even by 2018.
- (ii) Even though the arrangements for the establishment of proposed Finite Elements Analysis Simulation Centre of the Sri Lanka Plastic and Rubber Institute had been made, provisions amounting to Rs.49.7 million for the purchase of software and equipment required for the completion of the work during the year under review had been released to the Rubber Research Board on 14 December 2017.

2.1.3 Annual Performance Report

In terms of Public Finance Circular No.402 dated 12 September 2002, the Ministry should table the Performance Report in Parliament within 150 days from the close of the financial year. Nevertheless, the Performance Report for the year under review had been tabled in Parliament on 29 June 2018.

2.2 Domestic and foreign funded projects implemented

The Ministry had made provisions totalling Rs.3,954.65 million for 30 projects implemented by investing domestic funds and Rs.450 million for 02 foreign funded projects and out of which Rs.2,852.79 million comprising Rs.2,526.65 million and Rs.326.14 million had been used respectively. Accordingly, Rs.1,551.86 million or 35.23 per cent of the provisions made had been saved without being utilized.

2.2.1 Foreign Funded Projects

The International Fund for Agricultural Development and the Sri Lanka Government had made contributions to uplift the tea and rubber smallholders from the year 2016 to 2021. The

following observations are made on the performance of the Smallholder Tea and Rubber Revitalization Project implemented under the Ministry of Plantation Industries in respect of replanting of tea in 06 districts and replanting of rubber in 02 districts.

- (a) Even though provisions of Rs.671 million had been allocated during the year under review for market diversifications for tea smallholders and the subsidiary activities aimed at the market, those activities had not been commenced as at 31 December 2017.
- (b) Even though provisions of Rs.139.89 million had been allocated for granting loan facilities to the tea and rubber smallholders, action had not been taken to grant loans under the relevant component as at 31 December 2017.

2.2.2 Domestically Funded Projects

The following observations are made on the performance of the domestically funded projects.

- (a) Approval had been granted for the implementation of Rubber Master Plan prepared for the development of Rubber sector by the Cabinet Decision dated 26 July 2016. Nevertheless, approved 05 officers required for the implementation of that plan had not been recruited during the year under review. Therefore, implementation of the above plan had been delayed for more than a period of one year.
- (b) For the programme of the eradication of Coconut Leaf Wilting and Leaf Rot disease prevailed at Weligama from 2008 to 2017, a sum of Rs.475.36 million had been spent for Galle, Matara and Hambantota Districts. Due to the above disease, 293,306 trees had been removed and a sum of Rs.327.73 million had been paid as compensations thereon. Nevertheless, the Secretary to the Ministry had expressed that it will take another several years to eradicate the disease and the Coconut Research Institute has already introduced a coconut variety that could face the above disease successfully.

2.3 Obtaining Supplies and Services through Procurement Process

2.3.1 Implementation of Procurement Process

Although Rs.14,942,000 had been spent for the arrangements of the Coconut, Rubber and Tea International Trade Fair (CRT Trade Fair) organized by the Ministry of Plantation Industries in August 2017, a total cost estimate had not been prepared thereon. Bids had been invited for the selection of an organizer for organizing activities of the above Trade Fair. However, since the minimum bid out of the bids presented had been rejected without giving any acceptable reasons and the contract had been awarded to a higher bid, a sum of Rs.9,839,300 had to be overpaid.

2.4 Assets Management

The following deficiencies were observed at the audit test check carried out on the assets of the Ministry.

- (a) Non-utilization of the assets owned by the Government in optimum efficiency
-

The Sri Lanka Rubber Manufacturing Corporation Ltd. has been vested in this Ministry since year 2015 and with the objective of providing much better service for the rubber smallholders by restructuring the above Corporation since year 2010, operations of the Corporation had been discontinued and factories of the Corporation had been vested in the private sector. Nevertheless, the Foam Rubber Factory, three official quarters, the land of 24.3 acres in which the factory is situated at Elpitiya and owned by the Corporation had not been vested in an appropriate investor and therefore, those remained idle since year 2010.

- (b) Assets given to external parties
-

The Ministry had released two motor vehicles to the Thuru Saviya Fund and Rs.695,133 had been spent as insurance, maintenance and repair expenses thereon during the year under review.

2.5 Management Activities

The following observations are made.

- (a) The financial statements of the Kapruka Fund operating under the Ministry had not been prepared for the year ended 31 December 2017, the year of establishment of the Fund, and furnished to audit according to Section 21 of the Kapruka Fund Act No.31 of 2005.
- (b) Without being recruited the necessary staff for 02 programmes of the Ministry, buildings had been obtained on rent. A rent amounting to Rs.2.490,000 had been paid in respect of unused buildings for the period from August 2016 up to 31 December of the year under review.
- (c) A land, 75 perches in extent situated at Battaramulla area and bought by the Rubber Development Department by spending Rs.59.3 million in the year 2009 had been purchased and without being drawing attention on the necessity of constructing a building, a sum of Rs.119 million had been paid as the building rents for the maintenance of offices.
- (d) 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 and obtained the approval of the parliament in terms of section 12(8) and section 24 of the Control of Land Fragmentation Act.

- (e) Approval of the Tea, Rubber and Coconut Estates (control of fragmentation) Board had not been obtained in granting approval for the fragmentation of lands of the Local Authorities.

2.6 Utilization of Provision Made by the Parliament for the Execution of Activities

Information relating to the provision made for the Ministry during the 05 year period ended as at 31 December 2017, utilization, and the saving along with audit observations thereon, are as follows.

Year	Category of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of the net provision
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	1,005.90	954.22	51.68	5.14
	Capital	998.40	968.69	29.71	2.98
	Total	2,004.30	1,922.91	81.39	4.06
2014	Recurrent	1,176.06	1,132.19	43.87	3.73
	Capital	2,001.95	1,710.82	291.13	14.54
	Total	3,178.01	2,843.01	335.00	10.54
2015	Recurrent	9,465.49	9,403.84	61.66	0.65
	Capital	3,123.35	2,417.33	706.02	22.60
	Total	12,588.84	11,821.17	767.68	6.10
2016	Recurrent	2,949.85	2,704.62	245.23	8.31
	Capital	6,606.85	4,761.05	1,845.80	27.94
	Total	9,556.70	7,465.67	2,091.03	21.88
2017	Recurrent	4,538.57	4,249.42	289.15	6.37
	Capital	5,077.04	2,856.23	2,220.81	43.74
	Total	9,615.61	7,105.65	2,509.96	26.10

The following observations are made in connection with the year under review.

- (a) Non-utilization of provisions made

The total net provision of Rs.260.33 million made for 08 Objects during the year under review had been saved without being used for any purpose.

(b) Making overprovisions

Out of provisions totaling Rs.5,358.58 million made for 21 Objects, a sum of Rs.3,219 million only had been used and as such, savings had ranged from 13 per cent to 97 per cent of the net provision made.

(c) Making provisions through Supplementary Estimate Allocations

Provisions totaling Rs.262,618,700 made by the Supplementary Estimate for 06 development sub-projects had been entirely saved.

2.7 Estimated and Actual Revenue

The Ministry had estimated revenue totaling Rs.1,200 million in respect of leasing recovered from the regional plantation companies under Revenue Code 20.02.01.04 for the year 2017 and revenue of Rs.1,257.69 million had been collected during the year under review. It had represented 105 per cent of the estimated revenue.

The following matters were observed at the audit test check carried out on the above Revenue Account.

(a) Five hundred and seventy one estates belonging to the Janatha Estate Development Board and the Sri Lanka State Plantation Corporation had been leased to 23 regional plantation companies in the year 1995. As the value of net assets of three of the above plantation companies had not exceeded Rs.200 million as at 31 December 1994, it had not been possible to recover lease rents from those companies from the year 1995 according to the lease agreement. Nevertheless, it had been identified that the net assets of those companies had exceeded Rs.200 million by the year 2011. Since action had not been taken to make necessary amendments on the lease rents in the lease agreements, the Government had not been received any lease rent from 45 estates maintained under the above 3 companies.

(b) Out of lease rent totaling Rs.175.48 million recoverable from the Kurunegala Plantation Company as at 31 December 2017, a sum of Rs.129.76 million remained outstanding from the year 2009 and taking action for the recovery of those lease rents remained at very poor position.

2.8. Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account under the Item No. 13501 of the Ministry, 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
23.00	14.42	12.00	9.32	52.00	31.73

The following observations are made.

According to the reconciliation statement presented to audit, outstanding balances of Rs.496,711 had continued to exist from a period of 05 years and the recovery of loan balances remained at a weak level.

2.9 General Deposit Account

The balances of 04 General Deposit Accounts under the Ministry as at 31 December 2017 totalled Rs.47.02 million. The following observations are made thereon.

- Action in terms of Financial Regulation 571 had not been taken on 03 deposits of Rs.200,000 older than 2 years.
- Without taking action to return the remaining sum of Rs.36 million of the amount received for the Coconut, Tea and Rubber Trade Fair in the year 2017 to the General Treasury, it had been retained in the Deposit Account.

2.10 Non-compliance

Non-compliance with Laws, Rules and Regulations etc.

Instances of non-compliance with the provisions in Laws, Rules and Regulations observed at the audit test checks are indicated below.

Reference to Laws, Rules and Regulations	Value Rs.	Non-compliance
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 104 (4)		Although an inquiry should be conducted within a period of three month from the date of causing losses and damages to

determine the persons responsible therefor and submit a full report, action had not been taken accordingly in connection with 05 vehicle accidents caused during the year under review.

(i) Financial Regulation 371 (5) 142,000

Subsequent to issue of an imprest, it should be settled immediately after the completion of the relevant purpose. Nevertheless, a period from 01 month to 03 months had been taken to settle the imprests obtained in 11 instances.

(i) Financial Regulation 1646

Daily Running Charts had not been furnished to the Auditor General.

2.11 Human Resources Management

Approved Cadre ,Actual Cadre and Expenditure on Personal Emoluments

The details on the approved cadre, actual cadre, vacancies and the staff in excess as at 31 December 2017 are as follows and the Ministry had spent Rs.280.10 million for the personal emolument category during the year under review.

Category of employees	Approved Cadre	Actual Cadre	Number of Vacancies	No in excess
(i) Senior Level	29	25	04	-
(ii) Tertiary Level	04	03	01	-
(iii) Secondary Level	591	449	142	-
(iv) Primary Level	66	55	11	-
(v) Other (Casual/ Temporary/ Contract basis)	26	53	14	41
Total	716	585	172	41