

Head 149 - Report of the Auditor General on the Ministry of Industry and Commerce 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 were presented to Audit by the Ministry of Industry and Commerce . The financial and physical performance reflected by those accounts and 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 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 Scope of Audit

The audit of the Ministry of Industry and Commerce Head -149 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 17 August 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 Industry and Commerce for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of those observations appear from paragraph 2.1 to 2.4 of this report. It was observed that the accountability as the Chief 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 Chief Accounting Officer in terms of Financial Regulation 127	Non-compliance with that Provision by the Chief Accounting Officer	Reference to the Paragraph of the report which included the Observation
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Financial Regulations

127(1)(b)	A system which provides adequate controls over expenditure and the collection of revenue should be evolved.	1. Non-compliances	2.4
127(2)	Existing Items of Expenditure, as well as proposals for new or increased expenditure in the departments under his control, are closely examined in the Ministry from the points of view of economy and efficiency.	1. Delays in execution of projects 2. Projects without progress despite the release of money	2.1.1(a) 2.1.1(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.	Non-presentation of annual performance reports	2.1.2
127(5)	That, important variations between departmental Estimates and expenditure receive critical examination at the Ministry.	1. Non-utilization of provisions made 2. Excess provisions	2.2(a) 2.2(b)

127(6)	The collection of Revenue or other Government dues for which Accounting Officers are responsible, is closely watched and examined by the Ministry.	Deficiencies in the Advances to Public Officers Account	2.3
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2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Non-performance of Functions

(a) Delays in Execution of Projects

Delays were observed in the execution of the following projects by the Ministry.

- (i) Even though a sum of Rs.292.40 million had been spent for the constructions of 09 industrial estates planned to be completed during the year under review, the relevant purposes could not be completed even by 31 December 2017.

- (ii) Even though provisions of Rs.67.94 million had been made for 02 projects of which works should be completed during the year under review, no amount whatsoever had been spent during the year. Moreover, the following matters are observed in this connection.
 - Despite failure in entering into a clear agreement on the land relating to the constructions of the industrial estate, sums of Rs.34.5 million and Rs.132.60 million had been paid to the contractors for construction of buildings and infrastructure facilities in the years 2015 and 2016 respectively. Moreover, a sum of Rs.67.94 million had been allocated for the above project in the year 2017 as well.

 - Further, the total estimated cost for the project was Rs.253 million and a problematic situation prevailed relating to the land relevant to the project. However, out of that, a sum of Rs.167.1 million representing a sum approximate to 66 per cent of the total estimated cost, had been paid by 31 December 2017 to the contractors.

(b) Projects without Progress despite the release of Money

Even though an expenditure of Rs.9.54 million had been incurred during the year under review for 03 projects relating to the construction of the industrial estate, the activities relating thereto had not been even commenced.

2.1.2 Annual Performance Report

In terms of Public Finance Circular No. 402 of 12 September 2002, the Performance Report relating to the year under review should be tabled in Parliament within 150 days after the closure of the financial year. Nevertheless, the said report had not been tabled in Parliament even by 17 August 2018.

2.2 Utilization of Provisions made available by Parliament for Performance of Functions

Details on provisions made for the Ministry during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon, appear below.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provisions
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		Rs,Millions	Rs,Millions	Rs,Millions	
2013	Recurrent	596.89	566.42	30.47	5
	Capital	1,686.80	781.26	905.54	54
	Total	2,283.69	1,347.68	936.01	41
2014	Recurrent	739.78	714.94	24.84	3
	Capital	1,861.29	1,649.87	211.42	11
	Total	2,601.07	2,364.81	236.26	9
2015	Recurrent	1,804.16	1,691.16	113.00	6
	Capital	3,681.53	2,414.51	1,267.02	34
	Total	5,485.69	4,105.66	1,380.02	25
2016	Recurrent	1,970.17	1,773.48	196.69	10
	Capital	7,465.34	6,422.09	1,043.25	14
	Total	9,435.51	8,195.57	1,239.94	13
2017	Recurrent	2,419.58	1,971.68	447.90	19
	Capital	12,073.90	7,099.97	4,973.93	41
	Total	14,493.48	9,071.65	5,421.83	37

The following observations are made relating to the year under review.

(a) Non-utilization of Provisions made

The entire provision amounting to Rs.1,478 million and Rs.340 million made for 07 Capital Objects and 05 Recurrent Objects had been saved respectively.

(b) Excess Provisions

Excess provision totalling Rs.2,474.8 million comprising of Rs.52.1 million and Rs.2,422.7 million had been made for 19 Recurrent Objects and 27 Capital Objects respectively and as such the savings, after the utilization of provisions, ranged between 31 per cent and 98 per cent of the net provisions relating to the respective Objects.

(c) Provisions made by Allocation of Supplementary Estimates

The entire provision amounting to Rs.154.5 million made by supplementary estimates for 03 Capital Objects had been saved.

2.3 Advances to Public Officers Account

Limits authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account, Item No. 14901 relating to the Ministry and the actual amounts are shown below.

<u>Expenditure</u>		<u>Receipts</u>		<u>Debit Balance</u>	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million
27	25.29	13	16.45	75	59.18

The following observations are made in this connection.

Non-recovery of Outstanding Loan Balances

According to the Reconciliation Statement presented to audit, the balances that remained outstanding as at 31 December 2017 totalled Rs.100,208 and those outstanding balances had been brought forward from 08 years. However, the Ministry had failed to recover those outstanding loan balances.

2.4 Non-compliances

Non-compliance with Financial Regulations

Losses should be reported to the Auditor General in terms of Financial Regulation 103 (1) (a). However, action had not been so taken relating to 15 motor vehicle accidents observed in Audit during the year 2017.

2.5 Human Resources Management

Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre and vacancies as at 31 December 2017 in the performance of the functions of the Ministry, is as follows. A sum of Rs.345.23 million had been spent by the Ministry in the year under review for the category of Personal Emoluments.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies
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(i) Senior Level	72	51	21
(ii) Tertiary Level	07	06	01
(iii) Secondary Level	680	545	135
(iv) Primary Level	134	116	18
(v) Casual/ Contract/ Other	01	01	-
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	894	719	175
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