

Head 154 – Ministry of Rural Economic Affairs

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Rural Economic Affairs for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No.19 of 2018. The summary report including my comments and observations on the financial statements of the Ministry of Rural Economic Affairs was issued to the Chief Accounting Officer on 30 May 2019 in terms of Section 11(1) of the National Audit Act No.19 of 2018. The Annual Detailed Management Audit Report relating to the Ministry was issued to the Chief Accounting Officer on 31 May 2019 in terms of Section 11(2) of the National Audit Act. This report will be tabled in Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act No.19 of 2018.

In my opinion, except for the effects of the matters described in the paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Ministry of Rural Economic Affairs as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of the Chief Accounting Officer on the Financial Statements

The Chief Accounting Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and the provisions in Section 38 of the National Audit Act No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Ministry is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable the preparation of annual and periodic financial statements.

In terms of Sub-section 38(1)(c) of the National Audit Act, the Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's summary report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement, of the financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional, omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chief Accounting Officer regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in accordance with Section 6(d) and Section 38 of National Audit Act No.19 of 2018.

Since there was no requirement for the Ministry of Rural Economic Affairs to prepare financial statements for the preceding year, it could not state that the financial statements presented were consistent with the preceding year and therefor recommendations on the financial statements had not been made.

1.6 Comments On Financial Statements

1.6.1 Statement On Financial Performance

The following observations are made.

Audit observation	Recommendation	Comments of the Chief Accounting officer
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(a) Non – revenue receipts had been understand by Rs.6,848,028 and other net receipts had been overstated by Rs.5,777,530 in the financial performance statement for the year ended 31 December 2018. Therefore, the net understatement of revenue amounted to Rs.1,070,498.	The financial statements should be prepared in accordance with section 3.1 of the public accounts circular No.267/2018 dated 21 November 2018.	Accounting Statements were prepared in accordance with public Accounts circular No-267/2018 and as no training or direction received in this regard, the accounts were prepared in terms of public sector Accounting standard No 02 by taking into account the revenue collected by the Ministry separately and the expenditure separately.
(b) Advances paid had been understated by Rs.2,031,563 and refunds from government revenue had been overstated by Rs.1,519,987 in the Financial Performance statement for the year ended 31 December 2018. Therefore, the expenditure had been understated by Rs.511,576.	-do-	-do-
(c) Although the correct balance of imprest for the year ended 31 December 2018 should be	-do-	-do-

Rs.2,652,258,207 it had been shown in the Financial Performance statement as Rs.2,652,817,128. As such, a difference of Rs.558,921 was observed.

- (d) The balance of imprest as at 31 December 2018 had been shown as a zero balance by understating the provisions received under Financial Regulation 208 by Rs.909,880, non – adjusting the differences of receipts and payments of the Advance Account Amounting to Rs.4,690,268 and Rs.398,653 respectively after reconciling the monthly summaries and treasury print-outs and making erroneous adjustments for Rs.29,376,105 as cross entry payments under items of Expenditure, Rs.769,617 as surcharges received in cash and Rs.33,249,060 as cross entry receipts.
- The financial statements should be prepared in accordance with section 3.1 of the Public Accounts circular No.267/2018 dated 21 November 2018.
- Accounting statements were prepared in accordance with Public Accounts circular No.267/2018 and as no training or directions received in this regard, the accounts were prepared in terms of Public Sector Accounting Standard No.02 by taking into account the revenue collected by the Ministry separately and the expenditure separately.

1.6.2 Statement of Financial Position

 The following observation is made.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
Although the non- current assets as at 31 December 2017 amounted to Rs.633,057,435, the opening balance as per the financial statements of the year under review had been shown as Rs.1,564,496,082 Therefore, non- current assets had been overstated in the Statement of Financial position by Rs.930,438,647.	The balance as 31 December 2017 should be considered as the opening balance as at 01 January 2018.	As the present Ministry is formed ministries, there were problems in identifying the assets in the year 2017. All the assets in the identified and re-assessed in the year 2018 and the value of those assets increased accordingly.

1.6.3 Lack of Evidence for Audit

The following observations are made.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
(a) The vehicle bearing No.KJ 3853 had met with accident in September and October 2018. The evidence to establish repair cost and the insurance claim amounting to Rs. 22,600 received not made available. Although a total loss of Rs.101,650 had been shown in the statement of write offs from the Books , the final report which should be prepared as per Financial Regulations had not been presented to audit.	Statement of write – offs from Books should be prepared in terms of Financial Regulation 109, after identifying the party responsible for the loss and recovering the loss.	The driver had made a complaint to the police station; kohuwala with regard to the accident occurred on 10 October 2018 and had requested the police on 12 October 2018 to provide a copy of the complaint made by the driver and the police report on the accident. These documents had not yet been issued and it is note to obtain these documents and to complete the investigations without delay.
(b) A sum of Rs.105,153 and Rs.277,321 totaling Rs.382,474 had been spent to repair the vehicle bearing No CAA 0024 which had met with an accident in march 2018. However, evidence not made available to audit to confirm the payment, of Rs.277,321 to the garage.	All the documents and files relating to public money should be maintained up-to-date.	The vehicle bearing No CAA 0024 had met with an accident on 08 March 2018 and the damages were, repaired. The repairs were carried out at 02 instances due to non-availability of spare parts, and the repair cost for the first instance amounted to Rs.277,321. The particulars of this payment were requested form the Sri Lanka insurance corporation and will be forwarded soon after receiving those particulars.

1.6.4 Reconciliation Statement on Advances to Public Officers Accounts Advance

Accounts.

The following observation is made.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
A total sum of Rs.244,924 had been due as at end of the year under review from 03 officers who had left the service during the years 2002, 2015 and 2017, but action had not been taken to recover this balance.	Necessary systems and controls should be introduced to recover the loan balances in terms of section 4.5 of Paragraph xxiv of the Establishment code.	Action is being taking to recover the loans.

1.6.5 Non – Maintenance Of Book and Registers.

The Ministry had not maintained certain registers and certain registers had not been maintained up-to date as shown below.

Audit observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
(a) Register of Fixed Assets. ----- The Register of Fixed Assets had not been updated.	The register of fixed assets should be maintained with the concurrence of the Auditor general as relevant, in terms of	The Register of Fixed Assets is prepared in terms of Treasury Circular No 842. The books and details relevant to the vehicles vested by former Ministries were not received properly to this

the Treasury circular No 842 dated 19 December 1978/ Financial Regulation 502(2)- appendix II division and hence, complete information could not be included. The details of photocopying machines purchased for this division are included in the page for plant and machinery.

(b) Register of Surety Deposits

A register of surety Deposits which includes the particulars of employees who should keep surety deposits had not been updated.

A register of surety deposits should be maintained in respect of the officers obliged to keep surety deposits in terms of financial regulation 891(1)

A register of surety deposit is prepared in terms of financial regulation 891(1). The details of officers who kept surety deposits were included and action is being taken to keep deposits by the other officers who are liable to keep surety deposits.

(c) Register of Losses and Damages

A register of Losses and Damages had not been updated.

A Register of Losses and Damages should be maintained in terms of the Provisions of Financial Regulation 110.

A Register of Losses and Damaged is prepared and the damages to vehicles reported were included. As no losses from import of livestock and other damages have been reported, those were not included in the Register of losses and Damages.

(d) Register of advances

The designation of the officer who obtained the money and the voucher number while granting the advances to officers and the voucher number while setting the advances had not been entered in the Register of Advances.

The Register of Advances should be maintained and updated in terms of Financial Regulation 488(2)

Instructions were given to the officer in charge of the subject to include the voucher number and the designation of the officers. Gen -35 vouchers is signed while obtaining money and the voucher number is the cash book and the payment voucher.

1.6.6 Non – Compliance with Laws, Rules and Regulations

Instances of non- compliance with laws, rules and regulations observed in sample audit checks are shown below.

Audit Observation

Recommendation

Comments of the Chief Accounting officer

Reference to laws rules and regulation Non- compliance

- (a) Financial regulation of the democratic socialist republic of Sri Lanka.
- (i) Financial Regulation 104(3) The preliminary report should be submitted within 07 days. However, preliminary reports had not been submitted as at the date of audit in respect of 02 vehicle accidents, even though 353 days and 120 days lapsed respectively. Preliminary report should be submitted within 07 days in respect of damages in terms of financial regulation 104(3) Drivers' statements could not be obtained with regard to the two accidents occurred to the vehicles attached to the Ministry and the Minister staff. Reports will be forwarded without delay after carrying out ex. parte investigation.
- (b) Financial Regulation 104(4) Although a complete report should be submitted within 03 months, these reports had not been submitted in respect of 06 vehicle accidents even after a lapse of 05 to 30 months as the date of audit. A complete report should be submitted within 03 months in terms of Financial Regulation 104(4) Action will be taken to submit the reports soon, after the investigations are over.
- (c) Dambulla Management trust deed Paragraph (i) of sub – section (a) of section 07 It has been mentioned that all the surplus savings of the trust should be invested in relevant investments or otherwise only in government investments such as treasury bills or securities. However, without complying the above, the management trust had invested surplus money in fixed deposits. Without approval. Officers should pay special attention on existing laws, rules and regulation. The setter of the management trust had issued instructions to invest the surplus money of trust funds in stale banks too which offer highest interest rates.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting officer
(a) During the year 2018 the department of external resources had paid to the contractor an advance of Rs. 1,749,672,697 (US\$ 11,093,108) being 20% of US\$ 55,465,541 payable for the Import of 15,000 dairy cattle during the years 2018 to 2020. The above payment had been made to the contractor by obtaining money on loan basis from a foreign bank as a public debt. But provisions had not been obtained for the year 2018. For this under the Expenditure Head of the Ministry.	According to financial regulation 94(1) commitment should not be made for expenditure in respect of a service or supply unless provisions are available.	It had been decided to commence the 2 nd phase of the project for import of 20,000 dairy cattle due to the success shown in the 1 st phase of the said project recommendations had been made to execute the 2 nd phase, on the report of the Specialists Committee Submitted on 22 March 2018 in respect of import of 5,000 dairy cattle in year 2017 under the 1 st phase of the project. Advance of US\$ 11,093,108 had been released by the Treasury to implement the 2 nd phase of the project in terms of the agreement based on the consent of the Honorable Ministry of Finance given for the recommendation. Provisions had been made for the year 2019 on the instructions of the Deputy Secretary to the Treasury.
(b) Provisions amounting to Rs.1,093.34 million had been made for 24 items of recurrent expenditure and of this a sum of Rs.680.59 million had been spent. The savings amounted to Rs.412.75 which stands within a range of 6% to 86% Further; the total provision of Rs.0.72 million made for 02 items of Recurrent Expenditure had not been utilized.	Financial regulation 50 requires prepare accurate expenditure estimates.	The Ministry of Rural Economic Affairs is amalgamated with the Ministry of Fishery and Water Resources Development in mid of year 2018. Hence, staff of the Honorable Minister discontinued and the provision for recurrent expenditure relevant to the above remained unitized.
(c) Provisions amounting to Rs.2,989.62 million had been made for 16 items of Capital Expenditure and of this a sum of	-do-	The Honorable Minister left this division in the mid of the year and the capital provisions made for him remained unutilized. Further, there

Rs.2,434.27 had been spent. The savings amounted to Rs.554.34 million which Stands within a range of 6% to 94% Further, the total provision of Rs.6.5 million made for 06 items of Capital Expenditure had not been utilized.

were no major repairs for machinery and vehicles and the officers not participated for staff training and therefore, Capital provisions remained unutilized.

2.2. **Labilities and Commitments**

The following observation is made.

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
Commitments had been made for Rs.1, 283,259 to pay private parties and state institutions in excess of the savings of provisions amounting to Rs.276, 548 for the year 2018. Therefore, commitments amounting to Rs.1, 006,711 had been in excess of the provisions.	Accounting to Financial Regulation 94(1) necessary systems and Controls Should be introduced to avoid commitments in excess of provisions.	Although adequate provisions were included in the draft estimates for 2018 under the Items of Expenditure 1301, 1402, 1403 and 1409 which relates to the liabilities, provisions had been reduced while approving the estimates. Hence, these commitments occurred.

3. **Operating Review**

3.1 **Planning**

The following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Chief Accounting officer -----
(a) The target period for all the programmers included in the Action plan had been mentioned as 01 January 2018 to 31 December 2018. Specific periods to commence each activity had been shown in the Action plan.	The action plan should be prepared in accordance with the public finance circular No.01/2014 dated 17 February 2014.	As there are difficulties of get release the provisions at proper times, it has to set priorities in implementing the activities under each programme. Therefore, Specific periods were not mentioned in the plan under each activity.
(b) Although the provisions allocated for activities under each programme had been separately included in the action plan, only the total expenditure incurred for the whole programme	Progress reports and Actions plan should be submitted in a manner to ascertain and reconcile the Financial	It is noted to take necessary actions to submit progress reports in future in manner to ascertain the Financial Progress of the activities.

had been shown in the progress reports. Therefore, it was observed that it is unable to ascertain the Financial Progress of each activity.

- (c) Although a provision of Rs.400 million had been allocated for rural Infrastructure Development and Livelihood Development Programme; the activities expected, target production and units of measurements had not been shown in the action plan. Therefore, the correctness of the actual production shown in the progress report could not be ensured.

Progress of the activities under each programme.

-do-

Making final decisions on activities and production expected to be implemented under Rural Infrastructure Development and Livelihood Development programme lies on uncontrollable situations. Hence, even though the actual production was shown in the progress report after implementing these types of programmes, difficulties arisen in submitting expected activities, production target and units of measurement in the action plan.

3.2 Failure to carry out the Activities

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting officer
----- According to the action plan prepared by Dambulla Economic Center for the year 2017, 05 projects valued at Rs.39.5 million had been approved. However, action had not been taken to commence even a single project up to the end of the said year.	----- Plans should be properly prepared in order to complete the project the projects within the scheduled time periods and action should be taken to compete them within the scheduled time frame.	----- The tack vehicle park and the disposal tank are being completed now. Installation of CCTV cameras, construction of new toilet system and construction of the stair – case of the auditorium will be carried out during this year.

3.3 Activities Contrary to the Main Functions

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting officer
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An examination of 06 economic centers in Colombo, Amapra and Kandy districts revealed that locations for constructions of the center had not been properly identified after carrying out feasibility study and those suitable applicants had not been selected after preparing evaluation criterion. Therefore, it was observed that 06 centers are operated contrary to the objective and that most stalls of other centers are closed.	Necessary policy decisions should be taken in order to sell the agricultural products of the farmers directly, provide competitive prices to producers, provide a fair price to consumers which are the objectives of special economic centers and also plans should be prepared to operate the economic centers actively.	Necessary action is already taken together with the Ministry and the Management trusts to operate the economic centers actively.

3.4 Irregular Transactions

The following observation is made.

Audit Observation	Recommendation	Comments of the Chief Accounting officer
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(a) Stall rent amounting to Rs.245,500 had been outstanding from 15 stalls of the Ampara special economic center for periods ranging 3 to 8 months.	Necessary systems and controls should be prepared to enter in to formal agreements and recover the rent from stalls on the due date and also should supervise whether those systems and controls are operating often.	Amounts recoverable were recoded the business premises to be taken over were vested with Action is being taken to call for application to hand over the vacant business premises.

3.5 Failure to obtain benefits

The following observations are made.

Audit Observation	Recommendation	Comments of the Chief Accounting officer
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(a) A physical examination revealed that the two Storage Bank Complex building with sq.ft.14,536 which had been constructed by the corporative wholesale Estalishment at the Dambulla Special Economics center at a cost of RS.42.75 Million had not been taken over or handed over for nearly 6 years and had remained idle without being used for the intended purpose	Of public Finance circulars no 353 dated 30 September 1997, No 438 dated 13 November 2009, no 353(5) dated 03 January 2003 and Financial Regulation 771.	To take over this building in formal manner.
(b) It had been planned to establish 1,250 milk sales outlets under the Fresh Milk Promotion project which had been implemented since 2004 .The Livestock Development Board and the Ministry had started 685 outlets up to year 2013 of this, only 147 outlets had remained in the business as at 31 December 2018, as these outlets had been started with out carrying out a feasibility study.	Although a huge cost involved in increasing milk production, the Ministry should carry out a direct supervision to minimize closing down these sales outlets which require promoting the fresh milk consumption.	At the beginning the milk sales outlets which were started to promoted fresh milk consumption were given permission to sell only the fresh milk .But it was difficult to maintain those only from sale of milk .Hence permission given to sell other grocery items too at these outlets and facilitated to continue these outlets.

3.6 Abandonment of Projects without being completed

The following Observation is made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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<p>Provision amounting to Rs.2,000 million and rs.500 million had been in year 2016 and 2017 respectively to construct 5 cold storage plants managed by the private sector in order to stabilize the market price and also to minimize the postharvest damages. However , no money had been spent in year 2016 and preliminary activities of the project had been carried out in year 2017 by spending Rs.53.4 million .But the project had not been even up to April 2019 re-started due to non-carrying out a proper feasibility study and non availability of adequate land to implement the project.</p>	<p>High cost projects should the implemented after preparation of proper feasibility study reports by using correct information and specialty and with proper follow up action further , necessary systems and controls should be introduced in order to get the maximum output from the provision utilized.</p>	<p>Agreed</p>

3.7 Foreign Aid Projects

The Following Observation in made

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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<p>The Secretary to the Ministry of Rural Economic affairs and the high commissioner of New Zealand had entered into a partnership agreement for 03 years commencing from 24 February 2016 to create a fund for New Zealand Dollars 2.5 million for the Sri Lanka Dairy excellent training initiative.</p>	<p>According to paragraph 2 of public accounts circular no 30/94, necessary systems and controls should be introduced on the instructions of the Director General of External Resources to keep accounts on foreign aid transaction.</p>	<p>Not Relevant.</p>

This foreign aid transaction had not been carried out through the Director General of External Resources.

3.8 Assets Management

The following Observation is made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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Six vehicles valued at Rs.16.3 million including one vehicle registered in the name of Ministry and 5 vehicles not so registered had been used during the years 2015, 2016 and 2018 and had remained idle.	Action should be taken in terms of public finance circular No 438 dated 13 November 2009 No 353 (5) dated 03 January 2003 and Financial Regulation 771 in respect of idle and underutilized assets.	Six vehicles of the Ministry have been kept without running and further action is being delayed various reasons pertaining to each vehicle.

3.9 Losses and Damages

The following observations are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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(a) The vehicle bearing No KA-6702 used by the Deputy Minister had met with an accident on 06 November 2012 due to reckless driving of the driver and a sum of RS.736,625 had been spent for repair .The insurance claim received amounted to Rs.608,420 resulting a loss of Rs.128,205 .It had been decided in year 2018 to recover a percentage of the loss ; but the rate of the percentage had not been decided only a sum of Rs.4,000 had been recovered	The report should the prepared and action should be taken to recover the damages from the responsible party in terms of financial regulation 104	Process of recovery of loss from the drivers has been started as per the recommendation made as per the investigation carried out in items of financial regulation 104 and only a sum of Rs. 4,000 has been recovered .As the driver's services has been terminated from 01.12.2014 the loss has not been recovered after that. Even though it was decided to recover the balance money from the public service provident fund of the driver he has not completed and handed over the relevant from Attention is being paid to take legal action.

from the drivers at his retirement in year 2014 but action had not been taken to recover the balance .

The discount of Rs.200,443 received in respect of the repair cost of Rs.2,123,468 of the vehicles bearing no KA- 6702 which had been met with an accident in year 2014 had not been deducted and the total value had been shown in the financial statements as the value of write offs from the books of accounts.

The correct value of the losses should be shown in the financial statements.

The vehicles bearing No KA- 6702 had met with an accident and the repair cost amounted to Rs.2,123,468 A discount of Rs.200,443.50 was given .Action will be taken to correct this .

3.10 Importation of Dairy cattle Project

3.10.1 Implementation of the project without proper study

The following observation are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
(a) According to the National Policy prepared in 2006 at the beginning of the project to increase the milk production and the cabinet Memorandum dated 20 June 2007 ; 04 important proposals which should be implemented quickly to increase the local milk production had been put up of the 04 proposals attention had been paid only for importation of cattle An importation policy had not been prepared in order to import cattle by identifying them after taking into consideration the facts such as, suitability to tropical climate ;the availability of resources of	Attention should be paid to prepare a suitable policy for importation in order to import cattle by identifying the milk cows that can bear the climate of the country that suit to the environment; that can feed with freely available food and to get a higher benefit out of the government provisions.	Information not correct It is very difficult to import milk cows from such countries and there is a higher risk for decease.

the country to feed the cattle ;protection from deceases and ability to maintain at a minimum cost.

- (b) Although milk cows had been imported since 2012, the Ministry had not Maintained a date base system about these cows and a proper supervision had not been carried out.
- A data base system should be introduced and a proper supervision should be carried out
- A data base has been created for the cows relevant to project.
- (c) According to the calculations made in the feasibility report prepared in 2015 for the purpose of importation of 20,000 milk cows in year 2017, the cost of food is 53.78% of the revenue from milk .However the actual food cost of the farms of the Livestock development board was in a range of 69% to 89.71% of the revenue form milk.
- Feasibility reports, specially on this type of high cost projects should be prepared independently based on correct information and Specialty and action should be taken to obtain maximum productivity out of the government provisions which is a limited resource.
- Not correct
- (d) According to the above feasibility reports the daily production of milking in the first year is 18 liters per day and 19.5 liters per day in the second year, however the milk production was 15 liters pre day in the first year and 16 liters pre day in the second year with regard to the cattle imported by the Livestock development Board.
- do-
- A feasibility reports on this project was not forwarded during the year 2017 and the matter mentioned about it are not clear .Therefore, it is easy to give a firm reply it the query is clear.
- (e) According to the feasibility report the pregnancy percentage of a Milk cow is 80% each
- do-
- Information not correct

year. However the productivity of insemination in the country by artificial insemination at present is with in a range of 25% to 30%

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|---|--|--|
| <p>(f) The Ministry had entered into an agreement on 14 October 2014 for a sum of and \$ 73.95 million to import 20,000 milk cows for this tender had not been called for and the same contractor selected to import milk cows to the Livestock Development Board Under the Ministry by calling for tender in 2007 had been selected this time also. The above agreement had been revised in year November 2016 so to implement in 02 phase and a new agreement had been entered into Therefore after completion of 10 year of the first procurement action has been taken to import 20,000 milk cows from year 2017 to 2020.</p> | <p>According to the provisions of the procurement Guidelines contractor should be selected through tender procedure so as to obtain higher benefits.</p> | <p>This project was planned by the then Ministry of Economic Development. This tender was awarded to the same supplier whom selected by The Ministry of Livestock and rural community development which is relevant to this particular subject through proper Procurement and technical evaluation procedure. The approval of the cabinet of ministers has been obtained for this.</p> |
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3.10.2 Failure to Achieve Expected Production Levels due to unsuccessful Projects.

The following observations are made. in respect of importation of 1994 milk cows in phase 01 and 3204 milk cows in phase 02 in the year 2017 under importation of daily cattle.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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<p>(a) A sample of 12 dairy farmers was selected that own 858 milk cows out of 3,024 cattle imported at phase 02 , and according to the reports obtained from those farmer , they have sustained losses within a range of Rs.25,240 to RS.</p>	<p>Projects should the implemented so as to get a benefit to the country after the preparation of proper feasibility study reports using the Subjective knowledge in the Livestock field</p>	<p>Information can not be accepted.</p>

5.2 million monthly

- (b) Out of the sample of 902 cattle selected from 1994 milk cows imported at the first instance ; 656 mother cows are alive as at 28 February 2019 .out of the calves born from above mother cows ,only 190 calves are alive in farms. A feasibility study should be carried out before the implementation of projects through person having specialty knowledge of the particular subject In addition, proper supervision should be carried out while implementing the project and the officers should attend to the problems and difficulties faced by the farmers. Further, the necessary information should be documented and a date base should be maintained to store data relating to all information received, and proper and timely instruction should be issued to farmers were necessary. The Information furnished by these frames are not correct.
- (c) The sample of 858 cattle selected from 3024 milk cows imported at the second instance had given birth to 803 calves for the first time and 424 of them were male animals; thus the percentage is 53% out of the 803 calves born, 361 equivalent to 45 % had died .only 533 imported mother cows remained alive by February 2019 and of this 210 equivalent to 39% have became pregnant and it was observed that given birth only to 116 calves.
- (d) Out of the US \$ 16,739,589.77 allocated for importation of cattle , U.S. \$ 868,512 .52 equivalent to Rs.135,011 ,204 had been spent for technical A methodical study should be carried out by a team with the subjective knowledge on livestock field and action should be taken to prepare long – term plans under the Information not correct

management and capacity building .It was observed that relevant agency had not carried out technical management livestock Development Board or the Ministry.

- (e) 9500 cattle had been imported through a foreign loan of Rs. 6, 435 million within the period 2012 to 2018 under importation of dairy cattle project and given to the livestock development board and distributed among private farmer under the Ministry in order to reduce the importation of milk powder by increasing milk production and to increase the consumption of fresh milk .Never theses milk powder imported in year 2011 was M.Ton 84 .02 and it was increased to M.Ton 99.03 in year 2018 .Therefore the main objective of the project had not been achieved
- Policies should the formed to increase the fresh milk consumption and reduce importation of milk powder simultaneous to importation of dairy cattle’
- Information not correct

3.10.3 Unsafe implementation of the project

The following observations are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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(a) According to section 28 of the Animal Disease act No 59 of 1992, each and every animal enter to the country should be inspected in quarantine. However without complying the above, only a sample had been inspected in quarantine contrary to the act .post mortem examination of milk cows revealed that the death cause is	The Act should be complied with	Not correct.

B.V.D virus which had not been detected at the quarantine examinations.

- (b) The Director General of the Department of Animal Production and Health had informed that as per the quarantine report on the 1994 and 3024 milk cows imported in the year 2017 furnished by the chief Animal quarantine officer and the Director veterinary Research there is a risk for the humans and local cattle to be infected by these pathogens of the imported cattle.
- Projects should be implemented after carrying out a methodical study done by a team having a subjective knowledge of this particular field further, the project should be harmless to the country and the general public.
- The Director general of Animal product and health has done the needful.

3.10.4 Losses and Damages of the Project

The following observations are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
<p>(a) As the project was not successful cattle scheduled to be imported in 2018 had not been imported even by August 2019 milk cows to be imported in 2018, 2019 and 2020 were 2, 500, 7,500 and 5,000 respectively and advances amounting to Rs. 291.61 million, Rs. 874.83 million and Rs. 583.22 million totaling Rs. 1,749.67 million had been paid in May 2018 .It needs to point out that the interest and loss on devaluation of foreign exchange on the said advances has to be incurred.</p>	<p>A methodical study should be carried out by a team having a subjective knowledge on livestock field and long – term plan should be prepared under the Livestock Development Board or the Ministry in order to achieve a sustainable development.</p>	<p>It cannot say at all that the project is unsuccessful and due to meaningless attempt carrying out by the farmer under this project and external parties with a view to get further relief, this has been shown as an unsuccessful project. The farms which were managed according to proper instructions had achieved expected result and it is clear that success or failure of each farm. Which have the same type of cattle , Depends on the efficiency of the management, Further, the government has given an interest relief at a rate of 6% , a sum of Rs.267,000 for one cow and other required service also been provided. While enjoying all these benefits. A</p>

group of farmer trying to get further profits from the government by distorting the true information of their own farms

- (b) Wellard company had given 10 affected cattle to a farm at Galewela and as such a sum of Rs. 2 million being the value of those cattle had been repaid to the owner of the farm .The government had spent a sum of Rs. 3.21 million on these cattle and that amount had become a loss .Action had not been taken to recover this loss.
- Although the money spent by Government the loss to the Government should be recovered from the relevant parties.
- This farmer is a not a beneficiary applied in the first instance and the cattle retained at the Manikpalama farm had been obtained by him on his own consent on his request I have examined it again and after this on my request Wellard company had paid this money to the farmer .Theses cattle were affected after the importation .and as such the government cannot make a payment .Those cattle also were handed over to the same farmer.

4 . Non – achievement of Expected output

 The following observation are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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Elimination of poverty and hunger; economic development through a good work environment had been introduced by the Ministry of Rural Economy as its objectives of the institutions under this Ministry. However, out of the said objectives the National Livestock Development board had not recognized the following objectives i.e. elimination of hunger through their production and increase the nutrition.	Plans should be prepared and implanted in order to achieve the sustainable development objectives.	Not replied.

5. Human Rescuers Management

The following observation are made.

Audit Observation	Recommendation	Comments of the chief Accounting Officer
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(a) The secretary had released 27 Development officers to the paddy marketing board during the period June 2013 to March 2014 without the approval of the appointing authority and of this 26 officers had not reported for work the Ministry even up to end of the year under review Further even though the pension contribution should be recover on temporary releasement, the whole salary of Rs.34.30 million paid during 2017 had been reimbursed 2016 and without deducting the above.	Action should be taken in terms of section 2.5.1 in paragraph (v) of the establishment code.	The paddy marketing board was under this Ministry at that time and therefore, these officers have been attached for co-ordination duties of Ministry.
(b) The approved cadre as at 31 December 2018 was 666 and of these 33 vacancies including 09 posts of senior levels had remained unfilled.	Employees should be recruited as quick as possible in order to retained adequate cadre in the Ministry in order to carry out the duties properly.	Most of the vacancies included in the 09 vacancies of staff officer posts have to be filled by the Ministry of Public Administration. Therefore, it is requested from that Ministry to fill these vacancies .However, acting appointment were given to certain posts.

