

Head 292 - Department of Animal Production and Health

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statement of the Department of Animal Production and Health 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 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 Department of Animal Production and Health was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act, No. 19 of 2018, and the Detailed Annual Management Audit Report relating to the Department in terms of Section 11 (2) of the National Audit Act, No. 19 of 2018 was issued to the Accounting Officer on 28 May 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution 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 Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Department of Animal Production and Health 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 Standards.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 Responsibilities of Chief Accounting Officer and the Accounting Officer for the Financial Statements

The 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 provisions in Section 38 of the National Audit Act, No.19 of 2018 and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Department of Animal Production and Health is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

As per Sub-section 38 (1) (c) of the National Audit Act, the Chief Accounting Officer and the Accounting Officer shall ensure that effective internal control system for the financial control of the Department of Animal Production and Health exists, 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 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 judgment 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department'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 Accounting Officer regarding, significant audit findings, any significant deficiencies in internal control and other matters that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

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

Since there was no need for the Department of Animal Production and Health to prepare financial statements for the preceding year, it could not be stated that the financial statements presented for the year under review were consistent with the preceding year. Accordingly, recommendations on the financial statements of the preceding year are not presented in this report.

1.6 Comments on Financial Statements

1.6.1 Non-compliance of the Financial Statements with Provisions of Circulars

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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An Imprest Adjustment Account had not been prepared in terms of Circular Provisions for the imprest balance amounting to Rs. 998,657,362 as per the statement of financial performance.	Action should be taken in accordance with the State Accounts Circular, No. 267/2018, dated, 21 November 2018.	In preparing accounts for the year 2018, an Imprest Adjustment Account had not been prepared in terms of Section 7(vi) of the State Accounts Circular, No. 267/2018. There existed no adequate guidelines in that regard.

1.6.2 Statement of Financial Performance

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Receipts of deposits totalling Rs. 11,221,976, and receipts of advances of Government officers totalling Rs. 2,536,919 included under other receipts in the statement of financial performance, had also been shown as non-revenue receipts.	Action should be taken to accurately account those values.	It is kindly informed that the other receipts of non-financial nature totaled Rs. 57,855,975 for the year ended as at 31 December 2018.
(b) The non-revenue receipts amounting to Rs. 76,100,474 had been shown in the financial statements without deducting the repayment of Rs. 1,452,504.	The repayment from the revenue should be brought to accounts.	Will be prepared accurately in due course.

1.6.3 Property, Plant and Equipment

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>(a) According to the financial statements, the balance of non-financial assets amounted to Rs. 890,897,334 as at 31 December 2017, but the opening balance was shown as 2,151,650,841 as at 01 January 2018. As such, a difference of Rs. 1,260,753,507 was observed. Furthermore, the opening balance of non-financial assets amounted to Rs. 2,149,691,465 as per printouts of the Treasury, but the same amounted to Rs. 2,151,650,841 as per the financial statements, thus observing a difference of Rs. 1,959,376.</p>	<p>The values should accurately be shown in the financial statements.</p>	<p>Updated during the year 2018.</p>
<p>(b) The total of the purchases made in the year under review had been shown as Rs. 21,964,322 in the statement of non-financial assets, but the same amounted to Rs. 26,905,179 as per the monthly accounts statement. As such, there existed a difference of Rs. 4,940,857.</p>	<p>The financial statements should be prepared with accuracy.</p>	<p>It is kindly informed that the fixed assets are being updated from the beginning once again.</p>

- (c) A value of Rs. 2,173,615,163 had been shown in the statement of non-financial assets as non-current assets as at 31 December 2018. Nevertheless, the said amount had been a zero value in accordance with the report on assets issued by the Director of Department of State Accounts.
- Reports of assets should be updated.
- The Register of Fixed Assets will be updated from the year 2019.

1.6.4 Reconciliation Statement on the Advances to Public Officers

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Action had not been taken to settle the property loan balance of Rs. 62,668 continued to exist from the year 2003 with respect to a deceased officer.	Action should be taken to settle.	Due to non-availability of information on the heirs, it is kindly informed that the balance could not be settled.
(b) Action had not been taken to identify and correct the difference of Rs. 100,125 existed between the books of the Department and the printouts of the Treasury since the year 2015.	Action should be taken to identify and correct the difference in terms of Financial Regulation 427 (a)	Information sufficient for the settlement, does not exist. Corrections will be made in due course.

1.6.5 Lack of Evidence for Audit

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Although the financial statement indicated fixed assets worth Rs. 2,173,615,163 as at 31 December 2018, a report on fixed assets was not furnished to the Audit.	A report on fixed assets should be maintained.	The reports obtained through the computer software also showed a zero value, such a report is being prepared at present.
(b) Evidence relating to the guarantees totaling Rs. 1,448,000 recoverable from 204 officers in regard to 12 posts of the Department, had not been made available to the Audit.	The register of guarantees should be maintained up-to-date.	It has been noted to update the register of guarantees.

1.6.6 Failure to Maintain Books and Registers

The following registers had not been maintained by the Department whilst certain registers had not been maintained properly and up-to-date.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Official Telephone Register.		
An Official Telephone Register had not been maintained.	A Register of official Telephones should be maintained in terms of Chapter 26 of Financial Regulation 845(1).	Noted to maintain.
(b) Register of Securities		
A Register of Securities had not been maintained	A Register of Securities should be maintained	Action will be taken to correct the deficiencies thereby updating the

including information including information Register of Securities.
relating to the officers and mentioned in Financial
employees required to give Regulation 891(1).
securities.

(c) Register of Liabilities

A Register of Liabilities had not been maintained.	In terms of Financial Regulation 214, liabilities should be recorded in a Register of Liabilities enabling constant examination of liabilities.	After being pointed out by the Audit, action has been taken to maintain a Register of Liabilities.
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(d) Vehicle Log Book

The Vehicle Log Books had not been maintained in an up-to-date manner.	Vehicle Log Books should be maintained for every vehicle in Form General 267 in terms of the provisions in Financial Regulation 1645(a).	The relevant Vehicle Log Books remain under the custody of the Staff Officers in charge of Units. The officers have been apprised to update the Log Books with deficiencies.
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(e) Register of Listing Vehicles

The Department owned 138 vehicles. However, a Register of Vehicle Listing had not been maintained including information such as, the date of handing over the vehicle, and the date assigned.	A Register of Listing Vehicles should be maintained in terms of Financial Regulation 1647(e)	Not prepared as per Financial Regulations.
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1.6.7 Assurances to be Made by the Accounting Officer

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for the financial control exists in the Department and carry out	Reports should be furnished after conducting reviews.	Action will be taken to furnish in due course.

periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be furnished to the Auditor General. Nevertheless, no statements were made available to the Audit to ensure that reviews had been carried out in that manner.

1.6.8 Non-compliances with Laws, Rules, and Regulations

The non-compliances with Laws, Rules, and Regulations are as follows.

Reference to Laws, Rules, and Regulations	Non-compliances	Recommendation	Comment of the Accounting Officer
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka.			
(i) Section 5.6 of Chapter XIX.	The same economic rent had been charged during the year under review from 19 quarters of which the period of assessment had elapsed in the year 2017.	Action should be taken to assess the houses belonging to the Government.	Assessment reports will be summoned thereby taking necessary action.
(ii) Section 5.7 of Chapter XIX.	House rents pertaining to 05 officers from the year 2016 up to the year under review, had been undercharged by Rs. 218,139.	House rents should be recovered at the specified rate.	Action will be taken to recover the loss sustained in regard to the rents of the official quarters.

- iii) Sub-sections 06.1 & 6.15 of Chapter XIX. Although the lease period of 26 houses belonging to the Government had elapsed, it was observed that officers were still occupying those houses. Should be given on lease only for a period of 05 years as per the agreements. Not replied.

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

Financial Regulation 454(1)	Even after a period of 03 years since the installation of CCTV system purchased at a sum of Rs. 1,680,750 in December 2015, it was not recorded in any Inventory Book.	The receipt and issue of all the items belonging to the Government, should be recorded in the inventory.	Action has been taken to record the installation details in the inventory,
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2. Financial Review

2.1 Management of Expenditure

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Provision amounting to Rs. 14,443,469 had been saved in 21 recurrent Objects, whereas provision amounting to Rs. 629,630,828 had been saved in 28 capital Objects.	In terms of Financial Regulation 50, the estimate should be prepared in a realistic manner.	Due reasons such as, unexpected issues, non-receipt of imprests, and vouchers not presented, the provision had been saved.
(b) Once a sum of Rs. 3,000,000 had been transferred to the Object,	Action should be taken with a prior plan.	The saving had been caused due to unavoidable circumstances.

the saving amounted to Rs. 4,535,643 representing 62 per cent. As such, funds had been transferred without a proper plan and identifying the requirements.

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| (c) The payment of Rs. 1,983,519 made for the World Animal Health Organization as a part of the membership fee, had been incurred from a capital Object sans proper approval. | Payments should be made under a proper approval. | Payment had been made in the wake of inadequacy of provision in the relevant Object relating to the membership of the World Animal Health Organization. |
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2.2 Incurring Liabilities and Commitments

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The value of uncertified bills amounting to Rs. 18,362,056 received by the Engineering Division, had not been shown as liabilities.	Action should be taken in terms of the Circular to account the commitments.	It is accepted that a delay had occurred.
(b) Liabilities valued at Rs. 1,333,437 had been incurred in excess of the provision relating to 03 capital Objects.	The Financial Regulation 94(2) should be adhered to.	Accepted.
(c) Without indicating liabilities with respect to 02 capital Objects, the expenditure of Rs. 1,475,450 for the year 2018, had been paid in the year 2019.	The liabilities should be brought to accounts accurately.	Accepted.

- (d) Even though the Value Added Tax payable for the year under review amounted to Rs. 1,980,679, that sum had not been shown as liabilities and paid by utilizing the provision for the year 2019. The liabilities should be brought to accounts accurately, and provision should be made for making payments. A sum paid on value addition. Action had been taken to make the payment after being verified.

2.3 Utilization of Provision Provided by Other Ministries and Departments

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Provision totaling Rs. 75,648,147 received from other Ministries and Departments had been remitted without being utilized.	Maximum utilization of provision should be ensured.	Not replied.

2.4 Issue and Settlement of Advances

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The advance of Rs. 95,547 given in 7 instances had been settled in full without being utilized.	Advances should be obtained based on the requirement.	Action has been taken to apprise the directors from now on.
(b) Of the advance amounting to Rs. 4,992,011 given in 66 instances, a sum of Rs. 1,324,007 had been saved.	Action should be taken to grant advances accurately.	Action will be taken to rectify in due course.

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| (c) | In excess of the limit of Rs. 100,000 for ad hoc Sub-Imprests, advances totaling Rs. 93,599,988 had been given in 124 instances to 29 officers. | Action should be taken in terms of Financial Regulation 371 (2) (b) amended by Public Finance Circular, No. 03/2015, dated 14 July 2015. | Action will be taken in due course to control the situation. |
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2.5 Deposit Balances

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer	
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(a)	Action had not been to credit 60 deposit balances valued at Rs. 1,498,731 older than 02 years, to the Government revenue.	Action should be taken in terms of Financial Regulation 571.	Action will be taken to identify and settle those balances.
(b)	Follow up action had not been taken on 63 balances of retention money valued at Rs. 2,453,292 that had exceeded the maintenance period of contracts; instead, those monies had been retained in the deposit account.	Corrections should be made on the retention monies.	Action will be taken to identify and credit the relevant balances to the Government revenue, or pay to the relevant institutions.

3. Operating Review

3.1 Planning

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer	
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(a)	An Action Plan had been prepared based on the annual budget. But, the liabilities of Rs. 51,772,120 relating to the	Only the expenses of the relevant year should be paid through the annual budget plan.	Payments had been made by utilizing the provision made through the Plan.

preceding year had been settled from that provision.

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| (b) | According to the budget estimate, the capital provision amounted to Rs. 1,165,000,000, but the expenditure amounted to Rs. 730,921,347. As such, 37 per cent of the overall capital works had not been executed. | Action should be taken to ensure maximum utilization of budget provision. | Payments had not been made due to non-receipt of adequate imprests. |
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3.2 Failure to Discharge Functions

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Provision totaling Rs. 9,890,000 had been made on the 4 projects: examination on the performance relating to 7000 cattle, improvement in the management of genetics and feeding, development of seeds in 02 hectares, and improvement of poultry farming and related products. However, no activity whatsoever had been carried out even by 31 December 2018.	Planned activities should be executed.	It is informed that the project is a continuous one. It has been informed that seeds could not be obtained due to "Sena" caterpillar epidemic.

3.3 Failure to Achieve the Expected Level of Output

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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A sum of Rs. 1,602,094 had been paid in the year 2018 to the National Engineering	Provision allocated through the budget should be made use of.	Accepted.

Research Center for the preparation of estimates, structural plans, and detailed plans in regard to 03 construction contracts valued at Rs. 165,831,215.

3.4 Abandonment of Projects without being Completed

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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The duck house in the Central Poultry Research Center had been transformed into a cattle pound in the year 2015 at an expenditure of Rs. 1,562,325. However, the cattle pound had not been made any use of and remained idle.	Projects should be implemented to ensure economy for the funds spent.	The cattle pound remains idle though, it is kindly informed that it would be made use of in due course.

3.5 Procurements

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) An abnormal difference of Rs. 5,200,509 was observed between the prices in the estimate of the engineer and contractor relating to 03 contracts. As such, a performance security of low value had been obtained. Accordingly, action likely to be taken by the Department with respect to the future doubts relating to the	Action should be taken in terms of Guidelines 7.9.11 (c), and (d) of the Government Procurement Guidelines.	Action has been taken to obtain a price analysis from the contractor, and obtain the performance security equivalent to 10 per cent.

performance of the contractor, had become limited.

- (b) A sum of Rs. 27,957,374 had been paid in excess of provision made for 15 Procurement activities totaling Rs. 45,429,714. The total cost estimates should be prepared accurately and realistically. Action will be taken to minimize this situation in the ensuing years.

3.6 Assets Management

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Six Government quarters with a floor area of 6746 square feet, a silage processing building, a generator, and a caterpillar generator, had remained idle for a period of 06 – 19 years at the artificial insemination center in Polonnaruwa.	Suitable action should be taken.	Action has been taken to repair the Government quarters and include in the board of survey.
(b) A sum totaling Rs. 5,210,626 had been paid comprising Rs. 4,484,698 spent on the purchase of a generator in December 2017 for the dairy technology laboratory of the Livestock Investigation Center, and the expenditure on the building amounting to Rs. 725,928 for the installation of the machine. However, the machine had not been installed even by May 2019.	Utilization of assets should be fulltime.	It has been informed that the machine would be installed before 28 February 2019, and the building can be made use of thereafter.

3.7 Losses and Damages

The following observations are made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Action had not been taken even up to 29 February 2019 with respect to the settlement of : 16 cases valued at Rs. 1,030,300 older than 10 years as being the losses either to be recovered or omitted; 02 cases valued at Rs. 119,882 relating to a period of 05-10 years; 29 cases valued at Rs. 3,010,798 relating to a period of less than 05 years.	Action should be taken in terms of Financial Regulations to finalize and settle.	Not replied.
(b) A surcharge amounting to Rs. 89,736 had been paid for the electricity bill of the artificial insemination center relating to the period of August 2009 – August 2018	It is necessary to act for avoiding the payment of surcharges.	The activities such as, postal delays, recording in books and obtaining approval, and signing the cheques, take time, thus the delay.
(c) Twelve officers of the Department had obtained foreign study leave by producing guarantees. However, following the failure to complete the mandatory period of service, action had not been taken to recover the value of Rs. 31,245,665 from the guarantee.	Inquiries should be conducted in terms of Financial Regulation 104 and 110, thereby taking action for the recovery.	Action has been taken for the recovery.

3.8 Management Inefficiencies

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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Without installing electricity meters for the Government quarters, action had been taken to settle the electricity bill at Rs. 100 per month from each quarters. However, a sum totaling Rs. 3,609,910 had been paid on all the electricity bills in regard to the period 2014 – August 2018, but the contribution of the Government quarters amounted only to Rs. 30,736.	Action should be taken to install the electricity meters for each of the Government quarters.	Accepted.

4. Sustainable Development

4.1 Achievement of Sustainable Development Goals

The following observation is made.

Audit Observation	Recommendation	Comment of the Accounting Officer
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The Department had not been aware of the “2030 Agenda” on sustainable development adopted by the UN, thus failing to identify the Sustainable Development Goals and targets relating thereto, milestones in reaching those targets, and the indicators to measure the achievement of such targets.	Action should be taken to prepare the Action Plan in accordance with the Sustainable Development Goals.	The Line Ministry has identified the Sustainable Development Goals, targets, and the milestones in favor of the institutions such as NLDB, and MILCO functioning under the scope of the Line Ministry.

5. Human Resource Management

The following observation is made.

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Eighty two posts remained vacant including, 58 posts in the senior level, 05 posts in the tertiary level, 29 posts in the secondary level, and 40 posts in the primary level.	Action should be taken to fill the vacancies.	Not replied.