

## **Head 135 - Ministry of Plantation Industry**

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### **1. Financial Statements**

#### **1.1 Opinion**

Head 135 - The audit of the financial statements of the Ministry of Plantation Industry for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 containing my comments and observations on the financial statements of the Ministry of Plantation Industry was issued to the Chief Accounting Officer on 29 May 2023 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 09 June 2023 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, the financial statements prepared give a true and fair view of the financial position of the Ministry of Plantation Industry as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for 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 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 opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for 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 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 annual and periodic financial statements to be prepared.

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 Responsibility on Audit of 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 and its materiality depends on the influence on economic decisions taken by users 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 skepticism throughout the audit. I also furthermore;

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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.
- Evaluate the overall presentation, structure and content of the financial statements including 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 terms of Section 6 (1) (d) and Section 38 of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the previous year,
- (b) The recommendation which I had made in the preceding year with regard to the observation shown in Paragraph No. 2.3 (a) of this report had not been implemented.

## 1.6 Comments on Financial Statements

### 1.6.1 Non-compliance of Financial Statement with Circular Provisions

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
As stated in State Accounts Guideline No. 2022/05 dated 13 December 2022, because it was left blank by using "Notes" instead of entering "Page number of relevant Format/Annexure" in the column in Format ACA-D, it was unable to identify in audit that the page numbers included in the Account Formats.	It has been so entered by a mistake and actions will be taken to record accurately from the next year.	Financial Statements should be prepared in accordance with the circular provisions.

## 2. Financial Review

### 2.1 Revenue Management

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
(a) A total of 249,843 hectares of land owned by the government had been transferred in the year 1992 to 23 local plantation companies on lease basis for a period of 53 years and the Ministry had collected	The 03 Plantation Companies of Bogavantala, Maskeliya and Chilaw have paid the outstanding lease rent amount as at 31.12.2022 entirely on 28.02.2023 and the 02 Plantation Companies of	Proper steps should be taken to recover arrears of lease rent revenue on due date.

the lease rent and although the lease rent revenue of Rs. 838,042,793 to be received to the government by those 7 companies as at 31 December 2022 remained outstanding, actions had not been taken to collect the arrears of revenue together with Treasury without delay in terms of F.R. 176 (2) .

Kelani Valley and Kotagala have also paid one quarter each. The arrears of lease rent as at 28.02.2023 is Rs.734,063,996. The reason for the growth of arrears of lease rent is the arrears of rent payable by two Plantation Companies of Kotagala and Kurunegala.

- (b) According to the amended Lease Agreement No. 1558 entered into with Kurunegala Plantation Company on 27 November 1995, although the amount of lease rent calculated on the basis of net assets as at that date should be paid to the Ministry in four equal installments in a year for 53 years, due to the payment of the amount payable by companies per year on decrease in net assets, an amount of Rs. 277,714,736 should be collected from Kurunegala Plantation Company as at 28 February 2023 and it was observed that Rs.116,801,733 have been outstanding for more than 05 years. Even though the Company had agreed to pay the lease rent continuously on the due dates as per Paragraph 2 (a) of the lease rent revision agreement with this Company and also that condition had been violated since many years, although the lease agreement can be canceled by submitting a notice within 07

The Kurunegala Plantation Company has continuously paid lease rent under the method they follow. Nevertheless, the arrears of that Company's lease rent has grown from the difference between in values of the Company and the golden owner's method of calculation. As Kurunegala Plantation Company is a 100% government owned plantation company, a decision should be taken after discussion with the respective parties regarding the recovery of arrears of lease rent.

Actions should be taken to recover the lease rent as per the agreement.

days as per Paragraph 5(c) of this agreement, the Ministry had not taken actions accordingly.

## 2.2 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) Additional provisions had been made available by Supplementary Estimates ranging from 70 per cent to 220 per cent of the allocation made by the Annual Budget Estimates and by making transfers under F.R. 66 .	Due to the need to limit the expenditure of some expenditure objects, as per the circular issued by the Treasury in the year 2022, the expenditure of those expenditure objects have been transferred by F.R. 66 to meet other necessary expenses incurred of the Ministry and as the entire allocation estimated by us at the beginning of the year has not been approved to the Ministry, the provision has to be transferred by F.R. 66 .	Actions should be taken to prepare annual estimates as complete and accurate as possible and To effectively utilize the allocated funds in the respective task.
(b) Although Rs. 1,000,000 had been allocated in the Annual Budget Estimates to acquire machines and machineries, this provision had entirely been transferred by F.R. 66 for rehabilitation and improvement of vehicles without being utilized for the purpose.	Due to the need to limit the expenditure of some expenditure objects, as per the circular issued by the Treasury in the year 2022, the expenditure of those expenditure objects have been transferred by F.R. 66 to incur other necessary expenses of the Ministry and as the entire allocation estimated by us at the beginning of the year has not been approved to the Ministry, the provision has to be transferred by F.R. 66 .	Actions should be taken to prepare annual estimates as complete and accurate as possible and To effectively utilize the allocated funds in the respective task.

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| <p>(c) The net provision of Rs.15,075,000 which was made for 05 recurrent expenditure objects in the year under review was entirely saved and out of the net allocation Rs. 90,101,000 made for 31 recurrent expenditure objects, a sum of Rs.35,365,035, with significant amounts ranging from 27 per cent to 95 per cent had been saved.</p> | <p>These savings have occurred in the recurrent expenditure of the year under review because of the activities of the Ministry were also planned according to the Public Expenditure Management Circular in the year 2022 .</p> | <p>Actions should be taken to prepare annual estimates as complete and accurate as possible and To effectively utilize the allocated funds in the respective task.</p> |
| <p>(d) Out of the amounts transferred under F.R. 66 for 06 recurrent expenditure objects in the year under review amounted to Rs. 8,585,000, a total of Rs. 2,549,327 had been saved without being utilized in related tasks and this saving was 30 per cent of the allocations that had been transferred under F.R. 66 for those tasks.</p>   | <p>The Ministry has managed the expenditure objects and carried out the Ministry tasks as per Expenditure Management Circular issued by Treasury.</p>   | <p>Actions should be taken to prepare annual estimates as complete and accurate as possible and To effectively utilize the allocated funds in the respective task.</p> |

### 2.3 Advances to Public Officers' Account

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
<p>(a) Actions had not been taken to identify the difference of Rs.56,769 in the Advances to Public Officers' Account balance remained in between the Treasury Books and the Ministry Books by the end of the year under review and to settle.</p>	<p>Documents are being checked and necessary steps are being taken furthermore in respect of the actions that can be taken to resolve this.</p>	<p>Arrangement should be made to identify the reasons for the difference and settle .</p>

(b)	Actions had not been taken to recover a debt balance of Rs.36,116 receivable from an officer transferred out from the Ministry for about 28 years.	As it was impossible to find information about this officer, the recommendation to waive off this debt balance has been received and related activities are being done.	Debt balances should be settled promptly.
(c)	The debt balance of 03 officers who had left the service between 13 and 25 years totalled to Rs.398,511 had not been settled even by the year under review.	Arrangements are being made to get settled the debt of the suspended officer. As one of the officers who has left the service has died, the recommendation to waive this loan balance has been received and related activities are being carried out. Court actions will be taken to recover the debt balance of the other officer.	Debt balances should be settled promptly
(d)	Even though 02 years had elapsed, a sum of Rs.133,569 receivable from a retired officer had not been recovered.	Actions will be taken to offset from the officer's commuted pension.	Debts of retired officers should be recovered from commuted pension.

### 3. Operating Review

#### 3.1 Delays in the Execution of Projects

##### **Audit Observation**

Although it has been planned to implement 25 projects as per the Decision of Cabinet of Ministers dated 26 July 2016 to implement the ten-year (2016-2025) Rubber Industry Master Plan prepared by the Ministry of Plantations in collaboration with

##### **Comments of the Chief Accounting Officer**

Since the projects identified in the year 2016 were not compatible with the present and the current economic situation in Sri Lanka, the implementation of the projects of the Rubber

##### **Recommendation**

Project planning and execution should be efficient and effective.

the Ministry of Industry and Commerce and the Sri Lanka Rubber Industry Association representing the private sector with the technical assistance of the Asian Development Bank, it was observed that the desired objectives had not been achieved through the project due to the establishment of the General Secretariat of Sri Lanka Rubber and implementing of only 06 projects and failure of implementing 19 projects . Similarly, officers in all the supporting staff including General Secretary, Project Management Specialist and Project Secretary recruited to the established General Secretariat for Sri Lanka Rubber had left their relative positions due to job insecurity and delays in recruitment and approval for the posts.

Master Plan was practically problematic, a discussion was held in the Ministry to revise the Rubber Master Plan on 18.01.2023. Accordingly, plans are being formulated to implement the proposed project proposals presented in the year 2023 .

### 3.2 Losses and Damage

#### **Audit Observation**

Actions had not been taken to recover the losses and damages totalling to Rs.5,221,961 or to write off them from the books in respect of 06 cases in which between 06 and 11 years have passed since the loss occurred as at 31 December of the year under review.

#### **Comments of the Chief Accounting Officer**

Further actions are being done as per the Financial Regulations.

#### **Recommendation**

Actions should be taken to recover losses and damages and to write off if irrecoverable in accordance with Financial Regulations.

#### 4. Human Resources Management

##### **Audit Observation**

The approved cadre of the Ministry was 826 and although there were 91 vacancies and 22 excess officers as at 31 December of the year under review, the Ministry had not taken formal steps for these shortages and excesses or to revise the staff even by the end of the year under review.

##### **Comments of the Chief Accounting Officer**

The officers who are in excess in the staff have been nominated and arrangements are being made to transfer those officers as appropriate. Likewise, since the recruitment cannot be made for vacancies, the relevant vacancies should be filled by the Ministry of Public Administration.

##### **Recommendation**

Actions should be taken to fill vacancies or revise approved staff.