

Report of the Auditor General on Head 128 – Ministry of Traditional Industries and Small Enterprise Development - Year 2014

Paragraphs 1 and 2 of this Report contained the general information on the accounts of the Ministry and the Audit Observations of the Head appear in paragraph 3.

1.1 Scope of Audit

The audit of the Appropriation Account including the financial records, reconciliation statements, books, registers and other records of the Ministry of Traditional Industries and Small Enterprise Development for the year ended 31 December 2014 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Secretary to the Ministry on 03 August 2015. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the accounts and the reconciliation statements 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.

1.2 Responsibility of the Chief Accounting Officer for the Accounts and Reconciliation Statements

The Chief Accounting Officer is responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements 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 and Public Finance and Administrative Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements whether due to fraud or error.

2. Accounts

2.1 Appropriation Account

Total Provision and Expenditure

The total net provision made for the Ministry amounted to Rs. 1,130.94 million and out of that a sum of Rs. 1,116.89 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision of the Ministry amounted to Rs.14.05 million or 01 per cent of the total net provision. Details appear below.

Expenditure	As at 31 December 2014			Savings as a Percentage of Net Provision
	Net Provision	Utilization	Savings	
	Rs. millions	Rs. millions	Rs. millions	
Recurrent	699.54	698.88	0.66	0.09
Capital	431.40	418.01	13.39	3.10
Total	1,130.94	1,116.89	14.05	1.24

2.2 Advance Account

Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by the Parliament for the Advances to Public Officers Account of the Ministry and the actual amounts are given below.

Item No	Expenditure		Receipts		Debit Balance	
	Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
	Rs. millions	Rs. millions	Rs. millions	Rs. millions	Rs. millions	Rs. millions
12801	7.50	5.19	2.50	3.68	25.00	13.25

2.3 Imprest Account

The Imprest balances of the Ministry as at 31 December 2014 totalled Rs1,708,659. Out of that balance a sum of Rs. 810,130 had not been settled even up to 30 April 2015.

2.4 General Deposit Account

The balances of Deposit Accounts of the Ministry as at 31 December 2014 totalled Rs. 2,594,283.

2.5 Audit Observation

According to the Financial Records, Books for the year ended 31 December 2014, it was observed that subject to the audit observations appearing in the Management Audit Report referred to in paragraph 1.1, the Appropriation Account and the Reconciliation Statements of the Ministry of Traditional Industries and Small Enterprise Development had been prepared satisfactorily. The material and important observations out of the observations included in that Management Audit Report appear in paragraph 3 below.

3. Head 128 - Ministry of Traditional Industries and Small Enterprise Development

3.1 Non-maintenance of Registers and Books

A Register of Fixed Assets on Computers, Accessories and Software had not been maintained in accordance to Treasury Circular No. IAI/2002/02 dated 28 November 2002. A Register on Fixed Assets had not been updated in accordance to Treasury Circular No. 842 dated 19 December 1978.

3.2 Appropriation Account

3.2.1 Budgetary Variance

- (a) The entire net provision amounting to Rs. 598,030 made for 01 Object had been saved.
- (b) Excess provision had been made for 10 Objects and as such the savings, after the utilization of provisions, ranged between 10 per cent to 99. per cent of the net provisions relating to the respective Objects.

3.3 Reconciliation Statement of the Advances to Public Officers Account

According to the Reconciliation Statement of Advance Account Item No 12801, the balances that remained outstanding as at that date totalled Rs. 481,969 and even though those outstanding balances remained over periods ranging from 01 years to 05 years, the Ministry had failed to recover the outstanding balances.

3.4 Good Governance and Accountability

3.4.1 Annual Action Plan

The Ministry had not been prepared an Annual Action Plan in terms of the Public Finance Circular No. 01/2014 dated 17 of February 2014.

3.4.2 Internal Audit

Although an Internal Audit Unit had been established in the Ministry the following short comings were observed.

- (a) The post of Chief Internal Auditor had been vacant for more than 03 years since 08 May 2011.
- (b) While copies of the internal audit reports had not been forwarded to the Auditor General in terms of Financial Regulation 134(3), internal audit had not been performed in accordance with the Management Audit Circular No. DMA/2009(1) dated 09 June 2009.

3.5 Assets Management

(a) Conduct of Annual Boards of Survey

According to the Public Finance Circular No. 02/2014 of 17 October 2014, the Board of Survey for the year should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2015. Nevertheless, the Ministry had not furnished those reports even by 31 December 2015. The last Board of Survey conducted had been for the year 2013.

(b) Assets given to External Parties

Instances of assets released irregularly to other external parties by the Ministry were observed as follows.

Category of Assets	Assets given to	Value	Period
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		Rs.	
Buildings	Ministry of Co-operative	Not	From 2013 to
Other Assets	and Trade	Assessed	08.01.2015
Vehicle	Northsi Institute Weerawila	-Do-	17.09.2012
Vehicle	Northsi Institute Lunuwila	-Do-	13.06.2012
Vehicle	Ceylon Industrial Development Board Monaragala	-Do-	06.08.2013
Vehicle	Ceylon Industrial Development Board Ratnapura	-Do-	30.09.2013
Vehicle	Palmyra Development Board	-Do-	-

3.6 Non-compliance

Non-compliance with Laws, Rules and Regulations

Action had not been taken even up to 31 March 2015 in accordance with the Financial Regulations regarding losses which should be recovered or written-off up within end of the year under review amounted to Rs. 337,803.

3.7 Implementation of Projects under Domestic Financing

Projects Abandoned without Commencing

The Ministry had abandoned following Projects without commencing.

- (a) Even though Development of Hambantota Medamulana Village of Coir related production had been planned on an estimation of Rs. 2.1 million, that project had been abandoned due to low facilities.
- (b) Even though Development of Galle, Habaraduwa, Welladdara Village of Coir related production had been planned on an estimation of Rs. 9 million, that project had been abandoned due to lack of beneficiaries.
- (c) Even though provision of Rs. 2 million had been made during the year under review for maintenance of internal roads, drainages and construction of a Parapet wall in the industrial colonies of Colombe and Panaluwa, those constructions had not been commenced.
- (d) Provisions of Rs. 500,000 and Rs. 700,000 had been made for construction of fences surrounding the Ratnapura and Pussella Industrial Colonies and Matale Kaludewala Industrial Colony respectively but those constructions had not been commenced.
- (e) Even though a security room had been planned to construct for the Nuwara-eliya Kotagala Industrial Colony with a cost of Rs. 700,000, that room had not been constructed.

3.8 Performance

 The observations on the progress of the Ministry according to the Annual Budget Estimates and Action Plan for the year 2014 are given below.

(a) Activities Contrary to Key Functions

 The following observations are made

- (i) A provision of Rs. 2 million had been made for provide equipment, raw materials, infrastructure and training programmes for 40 identified beneficiaries of Hambantota, Beliatta, Angulmaduwa Lacquer Village and a sum of Rs. 532,670 had been spent for that. A 27 per cent progress had

been achieved by end of the year under review for this activity which was not included in the Annual Action Plan.

- (ii) It was observed a land of 120 square feet belong to the Common Service Centre which was built for the beneficiaries of the Kandy Neelawela Jewellery Village, was being used by a Grama Niladari without any approval or any payment.

(b) Key Functions not Executed Adequately

The key functions of the Ministry had not been executed adequately and several instances so revealed are given below.

- (i) As the land of Jute Village Common Service Centre in Kandy Kalasirigama had not been vested legal action had not been taken to construct the proposed construction of security fence estimated to Rs.800,000 even up to end of the year under review.
- (ii) Even though an estimate of Rs. 580,000 had been made for supply electricity for 20 craft cottages under the Development of Infrastructure in Gampaha Attanagalle Alawala Musical Instrumental Village, action had not been taken to complete relevant activities even by end of the year under review.
- (iii) A Mobile Pug Mill had been planned to supply by May 2014 for the beneficiaries of the Minuwangoda Polwatta Pottary Vilege. Even though a sum of Rs. 1,145,005 had been spent for the production of the machinery, action had not been taken to hand over the Machine to the beneficiaries even up to end of the year under review.

(c) Planning

Several instances where action in accordance with the Action Plan prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014 had not been taken are given below.

(i) Development of Craft Villages

 Following observations are made

- * Even though the expected cost to start 05 Craft Village Projects were Rs. 150,000, a sum of Rs. 1,917,190 had been spent.
- * Even though a sum of Rs. 1 million had been estimated for the expenses of Supervision, Coordination and evaluation of 22 Craft Village Projects, a sum of Rs. 2,630,609 had been spent. Accordingly expected cost had been exceeded by 163 per cent.

(ii) Development of Pottery Villages

 Following observations are made

- * Even though a sum of Rs. 1.2 million had been estimated for providing 59 kilns for craftsmen in the Udubeddawa Madawalagaraya Village, subsequently those money had been used for the development activities of the Head Office.
- * Even though a sum of Rs. 1.2 million had been aimed for providing 20 numbers of craft cottages for the beneficiaries of Naula Dodamattawala, number of craft cottages had been decreased up to 10 end of the year under review.
- * Even though 10 craft cottages in Kaduwela Ranala had been planned to completed by June 2014, those craft cottages had not been completed even by end of the year under review.

(iii) Kithul Development National Programme

 The following observations are made.

- * An insurance scheme had been introduced for 1000 Kitul Tappers as a step of paying compensation to the disasters happening from accidents when tapping trees. Only 113 out of those Kithul Tappers had been insured. Accordingly, only 11 per cent of expected objectives from that programme had been succeeded.
- * Even though a provision of Rs. 150,000 had been made for restructuring of four Kithul Villages, it had not been implemented during the year under review. Action had not been taken even to restructure those villages.

- * Even though 05 kithul plant nurseries had been planned to create in Colombo District with an expenditure of Rs. 500,000, no any nurseries had been created due to unavailability of a suitable place. Action had not been taken to seek a suitable place for kithul plant nurseries even from other Districts.
- * Even though 20,000 kithul plants had been planned to distribute among the farmers during the year under review, only 1,025 plants had been distributed due to not enter to an agreement with the Department of Forest.
- * Even though a sum of Rs. 4.5 million had been estimated for distribute 1,000 safety belts and knives to Kithul Tappers, a sum of Rs. 4.73 million had been spent and distributed only 476 safety belts and knives during the year under review.
- * Even though a sum of Rs. 500,000 had been estimated to issue Sri Lanka Standards (SLS) certificate for production of 10 kithul tappers during the year under review, that certificate had not been issued even for one Kithul Tapper.

(iv) Industrial Estates

A provision of Rs. 4.7 million had been made for maintenance of internal road system of the Kaludewala Matale Mini Industrial Estates under the development of infrastructure facilities in 05 Main Industrial Estates and 08 Mini Industrial Estates by the project of Modernization and Upgrading Main and Mini Industrial Estates. Only a 40 per cent low progress had been reported end of the year under review.

3.9 Transactions in the Nature of Financial Malpractices

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- (a) A sum of Rs. 6,000,000 had been paid as advance to Palmyrah Development Board for quick up the livelihood development of 70,000 families depending on palmyrah production in Northern Province. Out of that a sum of Rs. 593,108 had been settled for conducting trainings, hotel bills, fuel for transport, purchase palmyrah leaves based on fraudulently made vouchers, bills, receipts, documents and signatures. Accordingly, it was unable to confirm in audit that the amount of

Rs. 6,000,000 which had been given to livelihood development of 70,000 families depending on palmyrah productions in Northern Province had not been utilized for the purpose.

(b) Action had not been taken according to the Financial Regulations 103(1) for the presented above fraudulent documents, signatures and bills.

3.10 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position of cadre as at 31 December 2014 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i) Senior Level	19	12	07
(ii) Tertiary Level	04	02	02
(iii) Secondary Level	398	314	84
(iv) Primary Level	32	24	08
Total	453	352	101
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(b) Irregular release of Human Resources to other Parties

The particulars of irregular release of human resources to other parties during the year under review by the Ministry are given below.

Category of Employees	Numbers	Other Party	Period of Release
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Development Assistant	01	National Craft Council	October 2012

(c) Human Resources obtained from Other Parties

A driver who was attached to the Head Office of a Government Institute had been employed irregularly by the Ministry for over 03 years from April 2011 to 09 January 2015.