

Report of the Auditor General on Head 293- Rubber Development Department- Year 2017

The Appropriation Account and the Reconciliation Statement under the Head and the Item Number mentioned in the First Schedule and the Third Schedule of the Appropriation Act No.24 of 2016 as amended by the Appropriation (Amendment) Act No.32 of 2017 was furnished to audit by the Rubber Development Department. The financial and physical performance indicated by those Accounts and Reconciliation Statements is audited in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer on Financial

Management and Accountability

Earning state money and collecting money receivable to the Government and also, the general supervision on monitoring all financial activities of the Government is entrusted to the Minister of Finance in terms of the Financial Regulation 124 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers are appointed in terms of the Financial Regulation 124(2) to fulfill that responsibility by the Minister of Finance. The Head of the Department is the Accounting Officer in terms of the Financial Regulation 125(1)(a) on all monetary transactions of his Department and the Income Accounting Officer is appointed by the Treasury. The responsibility also includes planning, implementation and the maintenance of the internal control relevant to the maintenance, preparation and fair presentation of the Accounts and Reconciliation Statements furnished by fulfilling its functions within the scope determined by the Parliament in compliance with Articles 148,149,150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions, Government Financial Regulations and with Administrative Regulations.

1.3 Scope of Audit

The audit of Head 293 Rubber Development Department for the year ended 31 December 2017 carried out on planning relating to the financial and physical performance, management of state expenditure, state revenue, human and physical resources, deployment of internal control provisions, compliance with laws, rules and regulations and maintaining and updating books, registers, records and reconciliation statements, preparing and furnishing Accounts timely, issuing Performance Reports to the relevant parties based on the Performance Index 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 Director General of the Department on 16 October 2018. The audit observations, comments and findings on the accounts and reconciliation statements were based on a

review of the Accounts, Reconciliation Statements and Performance Reports presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

1.4 Audit Observation

Audit observations revealed in the audit carried out in the Rubber Development Department for the year ended 31 December 2017 are mentioned in details in the Management Audit Report mentioned in the Paragraph 1.3 above. The material and significant audit observations out of those observations are mentioned from paragraph 2.1 to paragraph 2.7 of this Report. It was observed that he has fulfilled his accountability as the Chief Accounting Officer under the audit observations summarized and stated in the Note given below revealed in fulfilling the provisions stated in the Financial Regulation 128 of Financial Regulations of the Democratic Socialist Republic of Sri Lanka, confirming the sufficiency of financial administration.

Accountability of the Accounting Officer in terms of the Financial Regulation 128	Non- compliance with that provisions by the Accounting Officer	Reference to the paragraph of the Report which included the Observation
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Financial
Regulation

128(1)(a)	That the activities of the Department are planned and implemented with discretion by considering the challenges of the Parliament in making available financial provisions for the policy prescribed and stated by the Government and for the authorized activities and stating an effort to complete the programme scheduled for the current year and to achieve the prescribed target.	1. Deficiencies in the Action Plan. 2. Not achieving the level of intended output. 3. Not achieving the intended outcome. 4. Delay in the Information Management Systems Development.	2.1.1 2.1.2(a) 2.1.2(b) 2.1.2(c)
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128(1)(d)	That a sufficient Method of Internal Inquiry is being maintained for receipts, payments and for issuance and that the operation of that method is inquired from time to time.	<ol style="list-style-type: none"> 1. Deficiencies in the Advances to Public Officers' Account. 2. General Deposit Account. 	<p>2.6</p> <p>2.7</p>
128(1)(e)	That sufficient and proper provisions are deployed for securely keeping money, goods, external equipment and other assets that belongs to the Government or under the custody of the Government and for verification, that they are being verified from time to time, and that their clearance is being carried out in compliance with the prescribed regulations and instructions in the instance where they are properly cleared.	<ol style="list-style-type: none"> 1. Deficiencies in documenting assets. 2. Idle and Underutilized Assets. 3. Using the assets not acquired improperly. 	<p>2.2(a)</p> <p>2.2(b)</p> <p>2.2(c)</p>
128(1) (f)	That the information, statements and reports requested either by the Chief Accounting Officer or by the Treasury are timely, accurately furnished.	<ol style="list-style-type: none"> 1. Not accurately preparing the Action Plan. 2. Furnishing the Performance Report after a delay. 	<p>2.1.1</p> <p>2.1.3</p>
128(1) (h)	That it is being reported to him either at least in every three months or by any other manner as being ordered that special	Recovering the outstanding loan balances in the Advances to Public Officers' Account.	2.6(b)

provisions are being made to recover outstanding fees and on the steps taken to expedite the recovery of those outstanding money by the Officers who are entrusted with that function.

128(1)(j)	That the functions of the Department are being carried out with due consideration on being economical, efficiency, effectiveness and honesty in executing the functions of the Government.	1. Not achieving the level of intended outputs	2.1.2(a)
		2. Not obtaining the intended benefits.	2.1.2(b)
		3. Delay in developing the Information Management System.	2.1.2(c)
		4. Irregular Transactions.	2.3
		5. Management Inefficiencies.	2.4
128(1)(q)	That an Appropriation Account is furnished to the Chief Accounting Officer in the end of the Financial Year for each programme in an Expenditure Head of which he is liable as the Accounting Officer.	Deficiencies in the Appropriation Account.	2.5

2. Material and Important Audit Observations

2.1 Performance

2.1.1 Planning

The following deficiencies were observed relating to the Action Plan prepared for obtaining the intended outcome from the key functions that should be executed by the Department.

- (a) Provisions had not been provisioned separately by identifying the concessions payable separately for the plantations proposed to initiate in the Action Plan prepared in the year under review and for the plantations initiated in the preceding years.
- (b) The Activity Plan, the Timeline and the Outputs/ Outcome of those activities had not been estimated and stated prepared on the priorities based on the Annual Budget relating to the year under review.

2.2 Non- execution of Functions

The following observations are made.

(a) Not achieving the intended level of output

Even though 10 various programmes had been identified and a sum of Rs.900 million of provisions had been made available for the execution of two key functions stated in the Action Plan, the following instances where the intended level of output had not been achieved, were observed.

- (I) Even though it was intended to replant rubber in lands 2,700 hectares in extent and in 1,500 hectares in extent respectively of Rubber Smallholders and of Plantation Companies in the year under review, replantation had been carried out only in lands 787 hectares in extent and in 59.52 hectares in extent of it. As such, the amount that had not been executed had been 70 per cent and 96 per cent respectively, of the planned amount.
- (II) Even though it had been planned to cultivate rubber in 2,760 hectares in extent and minor crops in 460 hectares in extent of lands in traditional and non- traditional areas in the year under review, it had been cultivated only in lands 327.8 hectares in extent and in lands 240.71 hectares in extent of lands, respectively. As such, the amount not being executed had been 88 per cent and 47 per cent respectively.

- (III) Even though it had been planned to pay concessions for applying rain covers in lands 3,750 hectares in extent of small estate holders and of estate companies in the year under review, the rain covers had been applied only in 1,235.41 hectares in extent of lands. As such, the amount which the rain covers not being used had been 67 per cent and action had not been taken by the Department to encourage the use of rain covers by Awareness Programmes.
- (IV) Even though it had been planned to cultivate and distribute 1,650,000 rubber plants as per the Action Plan of the year under review, 1,045,956 rubber plants had been planted as at 31 December 2017 and 664,651 rubber plants out of it or 40 per cent of the targeted amount had been distributed.

(b) Not receiving the Intended Outcome

Even though 8 plant nurseries had been maintained by spending a cost of Rs.185,842,375, the plant sales income in the year under review had been a sum of Rs.56,637,720. As such, action had not been taken to control the production cost of a rubber plant.

(c) Delay in developing the Information Management System

An agreement had been made for a sum of Rs.25.43 million for the development of an Information Management System on 02 March 2016 with a private company, by the Rubber Development Department. Even though the relevant function should be completed in December 2016 in terms of that Agreement and even though a sum of Rs.13.99 million of the agreed amount had been paid even by August 2018, the activities of the system had not been completed.

2.1.3 Annual Performance Report

Even though the Performance Report relating to the year under review should be tabled in Parliament within 150 days after the close of the Financial Year by the Department in terms of the Public Finance Circular No.402 of 12 September 2002, that Report had not been tabled in Parliament even by 30 August 2018.

2.2 Assets Management

The following observations are made.

(a) Documentation of Assets

Even though the details on the assets belonging to the Rubber Development Department should be sent to the Comptroller General's Office by 30 November 2017 in terms of the Assets Management Circular No.01/2017 of 28 June 2017, only the details on the motor vehicles out of it had been sent and details on the other fixed assets had not been sent even by 30 August 2018.

(b) Idle and Underutilized Assets

Eleven Official Residences administered under the Department remained being dilapidated on not repairing and not carrying out maintenance timely.

(c) Improper use of Assets not vested

Action had not been taken to acquire 24 Official Residences belonging to other Institutions administered under the Department, to the Department.

2.3 Irregular Transactions

The following observations are made.

(a) Recovery of Cess Tax

A Cess Tax of Rs.4 for one kilogram of raw rubber necessary for natural rubber related products manufactured either for exporting or for the domestic consumption should be charged from the suppliers in the instance where that raw rubber is purchased and it is being paid to the Department by the suppliers in terms of Paragraphs 2 (1)(d) and 2(3)(e) of the Orders for Cess Tax under the Section 7 of the Rubber Replantation Concession Fund Act, No.20 of 2006. However, that Industrialist had paid by deducting the Cess Tax amount paid to the Sri Lanka Customs, a sum of Rs.4 each for one kilogram in exporting, of the Cess Tax in paying the Cess Tax to the Department in the instance where the rubber is being purchased from the suppliers as per the above Orders, by a supplier who exports rubber related products which had been examined. As such, the Cess Tax deducted in that manner from the year 2011 to the year 2016 had been a sum of Rs.195,796,741.

(b) **Renting of Buildings**

Even though the approval of the Ministry had been received on 28 January 2016 to call for quotations for renting a building to maintain the Head Office of the Department, the relevant newspaper advertisements had been published after 08 months or, on 08 October 2016. As such, only one bid had been received in calling for bids and quotations had been called upon again for receiving a competitive quotation. Moreover, a Report from the Chief Valuer had not been obtained relating to this building of which the annual rent being valued at Rs.31,774,152 in terms of the Financial Regulation 835(2)(c).

2.4 Management Weaknesses

The following observations are made.

- (a) A building of 13,157 square feet had been rented for a sum of Rs.95,322,492 under a monthly rent amounting to Rs.2,647,847 from the same area, without constructing the Head Office of the Department despite a land, 75 perches in extent purchased by paying a sum of Rs.59.3 million on 27 February 2009 from the Battaramulla area for the construction of the building of the Head Office remained idle.
- (b) A sum of Rs.493,883 had been spent by the Department for an Officer who does not belong to the field of rubber, participated without the approval of the Secretary to the Ministry of Plantation Industries for a foreign training in the field of rubber in November of the preceding year.
- (c) Even though recycled polythene should not be included in the polythene bags as per the specifications in the procurement relating to supplying 910,000 polythene bags valued at Rs.3,503,026 in the year 2016, payments had been made in this connection despite it had been reported that recycled polythene is included as per the reports confirmed by the Rubber Research Institute relating to the quality of the purchased polythene bags.

2.5 Utilization of provisions made available by the Parliament for the execution of Functions

Details on the provisions made available to the Department, utilization and savings within 05 years from the year ended 31 December 2017 and the audit observations in this connection appear below.

Year	Type of Expenditure	Net Provision	Utilization	Saving	Saving as a percentage of the Net Provision
-----	-----	----- Rs.Millions	----- Rs.Millions	----- Rs.Millions	-----
2013	Recurrent	753.85	741.05	12.79	1.69
	Capital	96.00	60.05	35.95	37.44
	Total	849.85	801.10	48.74	5.73

2014	Recurrent	229.30	219.54	9.75	4.25
	Capital	869.50	852.12	17.38	1.99
	Total	1,098.80	1,071.66	27.13	2.46
2015	Recurrent	2,589.35	2,302.45	286.90	11.07
	Capital	1,102.00	892.10	209.90	19.04
	Total	3,691.35	3,194.55	496.80	13.45
2016	Recurrent	315.29	298.86	16.43	5.21
	Capital	1,069.50	775.68	293.82	27.47
	Total	1,384.79	1,074.54	310.25	22.40
2017	Recurrent	325.09	317.85	7.24	2.22
	Capital	1,018.00	785.82	232.18	22.80
	Total	1,343.09	1,103.67	239.42	17.82

The savings of the net provisions made available ranged from 22 per cent to 49.22 per cent on only a total sum of Rs.762.18 million being utilized of the provisions totalling Rs.90.50 million made available for 4 Capital Objects in the year under review.

2.6 Advances to Public Officers' Account

The limits authorized by Parliament for the Advances to Public Officers' Account Item No.29301 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
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Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions	Rs.Millions
19.00	18.64	14.50	16.80	55.00	37.55

The following observations are made.

- (a) The Book Balance of the Department had been overstated by sum of Rs.1,934,148 than the Book Balance of the Treasury on the balance as per the Books of the Department being a sum of Rs.39,484,296 and the balance as per the Books of the Treasury being a sum of Rs.37,550,148, as at 31 December 2017 of the Advances to Public Officers' Account Item No.29301 of the Department. Action had not been taken to identify that difference even in the year under review.

(b) According to the Reconciliation Statement furnished to audit, an outstanding loan balance amounting to Rs.145,452 remained from a period of over 5 years and the follow- up action remained at a weak level.

2.7 General Deposits

The total of the balances as at 31 December 2017 remained in 05 General Deposit Accounts under the Department had been a sum of Rs.11.45 million and the Individual Balances and the Age Analysis Reports relating to those balanced had not been prepared.

2.8 Human Resources Management

2.8.1 Approved Cadre, Actual Cadre and the Expenditure for Personnel Emoluments

Details on the approved cadre, the actual cadre and the number of vacancies as at 31 December 2017 for the execution of the function of the Department appear below and a sum of Rs.229.91 million had been spent for the Personnel Salaries Expenditure Code.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
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(i) Senior Level	30	23	07
(ii) Tertiary Level	17	04	13
(iii) Secondary Level	384	283	101
(iv) Primary Level	77	66	11
Total	508	376	132
	=====	=====	=====