

Head 300 - Report of the Auditor General on the Food Commissioner's Department - Year 2017

The Appropriation Account, the Reconciliation Statement and the Advance Account for Winding up Activities under Head and Item Number stated in the First Schedule and Third Schedule of the Appropriation Act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No.32 of 2017 were presented to Audit by the Food Commissioner's Department. The financial and physical performance reflected by those accounts and the reconciliation statements were 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 for the Financial Management and Accountability

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of Government in terms of Financial Regulation 124 of the Democratic Socialist Republic of Sri Lanka. The Chief Accounting Officers have been appointed by the Minister of Finance to discharge the above responsibility in terms of Financial Regulation 124(2). The Head of the Department will be the Accounting Officer in respect of all the financial transactions of his Department in terms of Financial Regulation 125(1)(a) and the Revenue Accounting Officer has been appointed by the Treasury. This responsibility includes designing, implementing and maintaining internal controls relevant to the maintenance, preparation and fair presentation of Accounts and Reconciliation Statements presented within the limitations imposed by Parliament 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, Government Financial Regulations and Administrative Regulations.

1.3 Scope of Audit

The audit of the Food Commissioner's Department – Head 300 for the year ended 31 December 2017 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka in respect of designing of financial and physical performance, Government expenditure, Government revenue, management of human and physical resources, apply of internal control systems, compliance with laws, rules and regulations and maintenance of books, registers, records and reconciliation statements in an updated manner, preparation and presentation of accounts in timely manner, issuance of performance reports to respective parties based on the performance indicators. The Management Audit Report for the year under review was issued to the Commissioner of the Department on 11 September 2018. The audit observations, comments and findings on the accounts and the reconciliation statements were based on a review of the plans, 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

The audit observations of the Food Commissioner's Department for the year ended 31 December 2017 revealed in audit, appear in the Management Audit Report in detail, mentioned in paragraph 1.3 above. The material and significant audit observations out of the said observations, appear from paragraph 2.1 to 2.10 of this report. It was observed that the accountability as the Accounting Officer had been satisfactorily executed, to ensure the adequacy of the financial administration subjected to the following summarized audit observations revealed in the execution of the provisions of the Financial Regulation 128 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Accountability of the Accounting Officer in terms of Financial Regulation 128(1)	Non-compliance with that Provision by the Accounting Officer	Reference to the Paragraph of the report which included the Observation
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Financial Regulations -----		
128(1)(a) That the work of his department is planned and carried out with due despatch, having regard to the policy laid down by the Government and the intentions of Parliament in granting him financial provision for the activities authorised, and that an endeavour is made to complete the programme of work laid down for the year and/or to attain the targets specified;	1. Non-preparation of the Action Plan accurately. 2. Non-performance of functions 3. Failure in planning procurement activities in an adequate manner and shortcomings in implementation of them. 4. Non-presentation of internal audit reports.	2.1.1 2.1.2 2.2 2.9
128(1)(b) That the organization for financial control and accounting in his department is effective, and provides adequately for the correct ascertainment, where necessary, of dues to Government, the systematic, complete and prompt collection of dues, and bringing to account	Deficiencies in management of human resources.	2.10

of monies received, the authorisation of commitments on behalf of the Government, the supervision and examination of services and supplies rendered, and the prompt and correct payment therefor from public funds;

128(1)(e)	That adequate and proper arrangements are made for the safe custody and preservation of money, stores, equipment and other assets belonging to the Government, or is in its custody, and that these are verified from time to time; and, where they are disposed of, such disposal is according to prescribed Regulations and instructions;	Deficiencies in management of assets	2.3
128(1)(h)	That the special arrangements are made to recover outstanding dues and that the officers assigned that task report to him at least once a quarter or as otherwise directed regarding arrears and action pursued to expedite their recovery;	1.Non-recovery of outstanding loan balances of the Advances to Public Officers Account. 2.Carrying out winding up activities and incompleting of liquidation activities of the Advance Account.	2.6 2.7
128(1)(i)	That the activities of his department are undertaken with due regard to economy, efficiency, propriety and integrity expected in the transaction of public business;	Management Weaknesses	2.4

2. Material and Significant Audit Observations

2.1 Performance

2.1.1 Planning

The Action Plan for the year 2017 had been prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014. The following deficiencies were observed in that connection.

- (a) The Action Plan had not been prepared in a manner in which the expected key functions are performed and only one function out of 05 expected key functions, which is “Create a pest free grain food environment”, had been included in the Action Plan.
- (b) Even though the key function of the Department is the Maintenance of 100,000 metric tons of rice buffer stock at the island wide Food Department warehouses, no plans whatsoever in that connection had been included in the Action Plan of the year under review.
- (c) Even though it had been notified at the Committee on Public Accounts held on 05 April 2017 that a Cabinet Memorandum should be prepared and forwarded to the Cabinet of Ministers for taking a policy decision in order to convert the mission of the Department into a reality under the key functions of the Department, a project report and a Cabinet Memorandum had not been prepared and presented to the Cabinet of Ministers even by 11 September 2018.

2.1.2 Non-performance of Functions

The following observations are made.

- (a) The Department had earned an income of Rs.2,205,772 by providing fumigation services to external institutions in the preceding year and according to the Action Plan of the year under review, it had been planned to earn an income of Rs.1 million by providing fumigation services. However, the actual income received in the year under review had been Rs.72,119 and it was 7.2 per cent out of the due income and 3.27 per cent as compared with the income of the preceding year.
- (b) A sum of Rs.252.06 million had been spent within the period from the year 2012 to 31 December 2017 for modernization of 06 stores located at the Veyangoda stores premises for the maintenance of rice as buffer stocks with a view to achieving 05 key functions of the Food Commissioner’s Department and for the purchase of local rice subjected to due standards with a view to exporting rice. However, no rice buffer stocks whatsoever had been stored in the stores owned by the Food Commissioner’s Department from 01 January 2014 up to 31 July 2018 after finishing 668 metric tons of rice stock stored in the Veyangoda No.10 Stores with a capacity of 5,400 metric tons for the evaluation of success of the pilot project of the year 2013. Moreover, provisions totalling Rs.385 million comprising Rs.175 million, Rs.150 million and Rs.60 million in the years 2018,

2019 and 2020 respectively had been approved as per the Cabinet Decision No.අමප/18/0244/723/004 of 28 February 2018 for modernization of 05 stores.

2.2 Obtaining Supplies and Services through the Procurement Process

Planning of Procurements

Provisions of Rs.205.50 million had been made for obtaining supplies and services to the Department through the procurement process in the year under review and out of that, a sum of Rs.181.28 million had been utilized. The observation on Procurement Plans prepared in respect of provisions made, are as follows.

- (a) Even though the Department had prepared the proposed annual Procurement Plan for the year 2017, it had not been prepared in a manner in which expected functions of the Action Plan of the year under review are performed.
- (b) The net provision made for constructions and renovation of buildings, had been Rs.200.50 million, whilst the expenditure therefor had been Rs.176.90 million. However, provisions for constructions and renovation of buildings had not been made in the proposed annual Procurement Plan.
- (c) The Department had not prepared a procurement time schedule for each contract and not maintained a contract administrative plan for taking follow up action to prove that the awarded contracts are implemented in a timely and proper manner and that, activities are properly carried out by contractors and suppliers.
- (d)
 - (i) In calling for quotations for 03 procurements of development of 05 stores located at the Veyangoda stores complex to the estimated value of Rs.169,201,859 by using the methodology based on environmental factors controlled scientifically, the procurement notice had been published only in English language in 03 newspapers of Sinhala, English and Tamil. As such, the opportunity for submitting bids of bidders had been limited and selection of more favourable bidders for the Department as well had been limited. Therefore, one of the objectives of the Government Procurement Process, that is, providing maximum opportunities for participation of qualified stakeholders for submitting bids, had not been achieved.
 - (ii) According to the Minute dated 15 June 2016 of the Operating Committee appointed for the construction of scientific stores, it had been decided to provide only maximum of 02 Tenders to one contractor for holding the success of stores proposed to be constructed. However, contracts for civil and electrical works of 05 stores had been awarded to one company by calling quotations as 02 Tenders.

2.3 Assets Management

The following shortcomings had been revealed at the audit test checks carried out in respect of assets of the Department.

(a) Recording of Assets

- (i) In terms of the Treasury Circular No.842 of 19 December 1978, the Register of Fixed Assets on lands and buildings had not been prepared even by 31 December 2017 and preparation of the Register had been commenced in the year 2018. However, all details on lands and buildings belonging to the Department had not been included therein.
- (ii) The Register on Computer Accessories and Software had not been prepared in terms of Treasury Circular No.IAI/2002/02 of 28 November 2002.
- (iii) The assessment reports of the year 2013 had been based for recording costs of assets in presentation of details on lands and buildings of the Department to the Comptroller General's Office, coming under the purview of the Ministry of Finance and Mass Media, in terms of Assets Management Circular No.01/2017 of 28 June 2017.
- (iv) In recording extent of lands and the value thereof, of the Veyangoda Stores Complex, details on lands of 10 acres in extent vested in the Government institutions as well, had been submitted.
- (v) The said details had not included the land of 0.7145 hectares in extent on which the Department has been established and the value of buildings located therein, lands of 1.5 acres in extent and buildings therein, located at Barnes Place and the land of 8.42 hectares, located at Orugodawatta.

(b) Non-receipt of Income receivable from Assets to the Government

The following observations are made.

- (i) Hundred and twenty one stores are available with the Department and out of them, 40 stores had been given to Government and private institutions on rental basis, 40 to institutions of the Public Sector free of rental, 20 for the usage of Food Department and 18 stores to the Divisional Secretary and the District Secretary and 03 stores were unserviceable. Moreover, a sum of Rs.54,330,341 was recoverable as at 31 December 2017 from stores rented out to Government and private institutions.
 - Even though the Orugodawatta Stores No.01 had been leased out to a private company at a monthly assessed rate of Rs.500,000 from 01 January to 31 December 2017, lease rentals had not been recovered duly in the year under review and rentals of Rs.6,005,760 were recoverable as at 31 December 2017. However, the Department had not taken adequate action even by 11 September 2018 to recover the outstanding rental of Rs.4,979,543 of the said amount.
 - Even though a sum of Rs.1,734,095 was recoverable as at 31 December 2017 from a private company to whom the Orugodawatta Nos. 15 and 16 Stores had been leased out prior to the year 2009, action had not been taken to recover the said lease even by 11 September 2018.

- (iv) Even though 352 houses at Dhanyagama of China Harbour in Trincomalee had been vested in writing in the Food Commissioner's Department on 12 March 1982 by the National Housing Development Authority, the ownership of the land on which the said housing scheme is located, had not been vested with the Food Commissioner. Those houses had been rented out to employees of Prima Ltd. and Government and semi-government employees in Trincomalee District and a rental of Rs.5,846,234 was recoverable by 31 December 2017 from those houses.
- (v) The outstanding rental of Rs.21,138,123 recoverable as at 31 December 2017 from 11 stores owned by the Department, rented out to the Lanka Sathosa and monies amounting to Rs.908,035 recoverable for palates had not been recovered even by 11 September 2018.

(b) Decrease in the Value and Quality of Government Assets

The following observations are made.

- (i) In terms of the Cabinet Decision No.අමප/17/0383/710/007 of 15 March 2017, the approval had been granted to allocate the land of 1.5 in extent located at No. 17 and 17 A, Barnes Place, Colombo 07 owned by the Department, to the High Commission of Pakistan in Sri Lanka. However, the said land had not been vested even by 11 September 2018.
- (ii) Eight buildings existed in this land and those buildings were being used by Government institutions free of rental over a period of many years. Moreover, after receiving the approval of the Cabinet of Ministers for allocating this land to the High Commission of Pakistan in Sri Lanka, buildings except 02, had been demolished without taking action to obtain the value from the Government Valuer on buildings and accessories therein.
- (iii) The Government institutions by which buildings of this land were being used, had removed office equipment with all accessories of buildings belonging to them. However, action had not been taken to recover the loss occurred by removing accessories of buildings, from relevant institutions.

(c) Assets given to External Parties

Instances in which stores of the Ratmalana Stores Complex had been released irregularly to external parties by the Department, were observed.

- (i) Stores of the Ratmalana Stores Complex No.01 owned by the Department had been given free of rental to the Economic Centre, Ratmalana without proper approval, a report on properties and a lease agreement.
- (ii) A building had been constructed illegally by an external party on the land of the Department, adjacent to the building in which the Economic Centre is maintained. However, action had not been taken to vest the ownership of this property to the Department.

2.4 Management Weaknesses

The following weaknesses were observed during the course of audit test checks.

- (a) Even though the Veyangoda Stores Nos. 01, 07, 08, 09, 10 and 16 had been modernized so as to store 22, 500 metric tons by 31 December 2017, only 13,313 metric tons of rice belonging to the Co-operative Wholesale Establishment, had been stored from November 2017 to 15 March 2018. This is only 59 per cent of the stock that can be stored. However, the electricity charges of the Veyangoda Stores Premises had taken a very high value such as Rs.869,537 for the year 2017 and Rs.5,142,730 from 01 January to 30 June 2018.
- (b) One store of the Veyangoda District Warehouse had been renovated with instruments required for a laboratory in the year 2016 by spending Rs.3,495,536 for carrying out laboratory tests and quality tests required in storing of stocks of rice received to stores of the Department and a Quality Control Officer as well had been recruited in December 2015. However, the objectives expected by this laboratory had not been achieved due to unavailability of stocks of rice owned by the Department in the year under review.
- (c) The Food Commissioner had been informed that 5,000 metric tons of rice belonging to the Ministry of Disaster Management, received to this country from Governments of India and Pakistan, should be fumigated promptly. Despite having met basic requirements for carrying out the relevant service by the Department, the Department had called for quotations from external institutions and awarded that contract to a private institution on the basis of supplying chemicals for fumigation. However, the total sum of Rs.1.06 million spent therefor by the Department had not been recovered from the Ministry of Disaster Management even by 11 September 2018.
- (d) Rates of Rs.4.30 million paid by the Department for 10 stores rented out to 09 Government institutions and one private institution, had not been reimbursed from relevant institutions.
- (e) Action had not been taken even by 11 September 2018 to pay the rate of Rs.1.67 million and the fine thereon payable for a store of the Ratmalana Stores Complex used by the Department.
- (f) The number of cases referred by 31 December 2017 for judiciary activities stood at 47 and out of them, 32 cases alone had been referred for the recovery of possession of houses of the Dhanyagama Housing Scheme. Moreover, only 5, out of these cases had been concluded during the year under review and no other cases whatsoever had been settled.
- (g) Action had not been taken even by 30 June 2018 for vesting the ownership of the land, in the Food Commissioner's Department, on which the Food Commissioner's Department has been established, bearing Assessment Nos. 330 and 330 A, located within the limits of Colombo Municipal Council in the Colombo District and the Certificate of Transfer of Lands granted under the Land Ordinance had not been received.

(h) Millers had not provided the quantity of rice receivable for paddy supplied to millers on the basis of providing rice in the years 2012 and 2013 for storing in the stores of the Veyangoda Scientific Stores. As such, a sum of Rs.7.39 million recoverable had not been recovered even by the date of audit.

2.5 Utilization of Provisions made available by Parliament for the Performance of Functions

Information on provisions made for the Department during the period of 05 years ended 31 December 2017, utilization and savings thereof and audit observations thereon are given below.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a percentage of the Net Provision
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	225.46	188.07	37.39	16.58
	Capital	27.82	18.86	8.95	32.17
	Total	253.28	206.93	46.35	18.29
2014	Recurrent	151.84	150.76	1.08	0.71
	Capital	22.87	16.96	5.91	25.84
	Total	174.71	167.72	6.99	4.00
2015	Recurrent	206.69	192.64	14.05	6.79
	Capital	21.68	2.07	19.68	90.72
	Total	228.37	194.65	33.72	14.77
2016	Recurrent	298.87	294.28	4.60	1.54
	Capital	59.43	49.58	9.85	16.54
	Total	358.30	343.86	14.45	4.03
2017	Recurrent	530.84	529.43	1.40	0.26
	Capital	204.03	180.13	23.90	11.71
	Total	734.87	709.56	25.31	44.3

The following observations are made in the year under review.

Even though supplementary provisions amounting to Rs.38.00 million had been approved for the development of electricity system of the stores located at Veyangoda under the Object of Construction of Buildings without preparing estimate properly, according to the estimate of the Ceylon Electricity Board, only a sum of Rs.11.97 million had been spent therefor.

2.6 Advances to Public Officers Account

Limits Authorized by Parliament

The limits authorized by Parliament for the Advances to Public Officers Account, Item No.30001 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million	Rs.Million
7.00	7.00	3.60	6.52	42.00	19.13

Non-recovery of Outstanding Loan Balances

The following observations are made.

According to the Reconciliation Statement presented to Audit, the balances that remained outstanding as at that date, except for the loan balances of officers who had gone on transfer, totalled Rs. 2,330,611. Even though those outstanding balances remained over periods ranging from 20 years to 25 years, the follow-up action on the recovery of the outstanding balances had been at a weak level. Moreover, the Department had failed to recover those outstanding balances.

2.7 Advance Account for Winding up Activities

According to a Cabinet Decision, activities on settling and winding up of 01 function of the Advance Account had been assigned to the Food Department and the following observations are made in that connection.

(a) Incompletion of Winding up Activities

- (i) In terms of the Cabinet Decision No. 403/03/1176/126/017/EPC/445 dated 10 December 2003 and Letter No.BD/ADAC/COM/FC/FD dated 23 August 2004, instructions had been given to maintain a liquidation unit under the Department or Ministry for winding up and liquidating activities of the Advance Account for purchasing and distribution of food as at 31 December 2004, operated under the Food Commissioner's Department. However, there was no evidence of the establishment of such a unit and those liquidating activities had been carried out by the Commissioner. Despite the elapse of over 13 years, liquidating activities had not been completed.

- (ii) Even though the approval of the Cabinet of Ministers had been granted to write off unrecoverable debtors and working losses, it had been indicated in the financial statements that a specific date for settling and winding up the Account for Liquidation cannot be declared due to reasons such as carrying out receipt of provisions step by step for settling the surcharges with outstanding stocks and co-operative debtors balances and utilizing the fixed assets belonging to the Advance Account for Liquidation for storing paddy and rice of the Government by the Food Department.
- (iii) The value of losses to be written off as at the date of beginning of the year under review amounted to Rs.4,046.69 million and the accumulated loss of the Liquidation Account for purchasing and distribution of food included therein and a sum of Rs.456.82 million as surcharge balances remained unrecovered from storekeepers had been written off in the year under review obtaining provisions under the Object 1701.
- (iv) Detailed information indicating the manner in which the total loss of Rs.3,590.17 million are formed, to be recovered further or written off or given up, had not been made available to Audit.

(b) Transactions without the Approval

The following observations are made.

- (i) Two motor vehicles valued at Rs.1.07 million had been handed over to the Ministry of Agricultural Development and the Ministry of Co-operatives in the years 2002 and 2003. Even though 14 years had elapsed after handing over these 02 motor vehicles, this value had been debited to the Accumulated Profit and Loss Account without the proper approval in the year under review instead of taking action to recover them.
- (ii) The value of Drought Subsidies Debtors of Social Services Director amounting to Rs.88.50 million recoverable as at 31 December 2016 from Ministries, Departments and Corporations had been debited to the Accumulated Profit and Loss Account without proper approval.
- (iii) In the instance of realization of assets belonging to the Advance Account, it had been indicated in the account that the relevant adjustment of accounting is carried out. However, contrary to that, the value of realization of fixed assets amounting to Rs.27.66 million credited to the Account of Termination had been credited to the Accumulated Profit and Loss Account without proper approval.

(d) Debtors Balances Recoverable

The following observations are made.

- (i) Food Stamps for rice, flour and sugar and Kerosene Stamp had been issued on credit basis for 175 Multi-purpose Co-operative Societies of 22 Districts. As such, a sum of Rs.170,945,536 was recoverable as at 31 December 2016 from Co-operative

Societies. Out of the said amount, only a sum of Rs.422,001 had been recovered in the year under review. Accordingly, recovery of debtors balances had been at a weak level.

(ii) Only a sum of Rs.34,474 had been recovered during the year from debtors with outstanding stocks valued at Rs.47,265,198 remained as at 31 December 2016 and out of these balances, a sum of Rs.957,334 had been written off with the approval of the Secretary to the Ministry. Further, effective measures had not been taken to recover other loans.

(iii) A sum of Rs.172,206,845 was recoverable from Government Ministries, Departments and Corporations from many years and out of that, no money whatsoever had been recovered in the year under review and necessary effective steps had not been taken to settle these loans.

2.8 General Deposit Accounts

Balances retained in 04 General Deposit Accounts of the Department as at 31 December 2017 totalled Rs.149.721 million and out of them, the balance of Rs.54,774,646 retained in the Deposit Account No.6000/0000/0013/0131/000 included the deposits remained since the year 1989 as well. However, necessary action in terms of Financial Regulation 571(3) had not been taken by the Department to settle deposits which can be taken into the Revenue.

2.9 Internal Audit

An Internal Audit Unit had not been established in the Department and those activities are carried out by the Internal Audit Unit of the Ministry. The copies of Internal Audit Reports to be submitted regarding the Department in terms of the Financial Regulation 134(3), had not been submitted to the Auditor General.

2.10 Human Resources Management

Approved Cadre, Actual Cadre and Expenditure on Personal Emoluments

The position on the approved cadre, actual cadre, vacancies and excess cadre as at 31 December 2017 for the performance of the functions mentioned in the paragraph 2.1 above, appear below. A sum of Rs.51.62 million had been spent by the Department for the category of personal emoluments for the year under review.

	Category of Employees	Approved Cadre	Actual Cadre	Vacancies	Excess
(i)	Senior Level	05	03	02	-
(ii)	Tertiary Level	03	01	02	-
(iii)	Secondary Level	116	45	71	-
(iv)	Primary Level	103	53	50	-
(v)	Casual/ Contract Basis	-	01	-	01
	Total	227	103	125	01

The Quality Control Officer of the Department had been inactive due to unavailability of stocks of rice in stores of the Department and non-receipt of fumigation service from external institutions to the Department and 11 Fumigators who are in the service as at 31 December 2017 had been assigned duties of Office Aids in various branches of the Department.