

Head 289 - Report of the Auditor General on the Department of Export Agriculture - Year 2017

The Appropriation Account, and Reconciliation Statement relating to Head and Item 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 Department of Export Agriculture. The financial and physical performance reflected by those accounts and 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 Department of Export Agriculture – Head 289 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 Director General of the Department on 22 June 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 Department of Export Agriculture 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 audit observations included in the Management Audit Report appear in paragraph 2.1 to 2.15 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.

General responsibilities of the Accounting Officers in terms of Financial Regulation 128	Non-compliance of the Accounting Officer to the Provision	Reference to the Paragraph of the report Containing Observations
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Financial Regulations

128 (1) (a) 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 attain the targets specified.	1. Failure to accurately prepare the Action Plan.	2.21
	2. Failure to execute the activities mentioned in the Action Plan.	2.2.2 (a)
	3. Failure to adequately plan the procurements.	2.3.1
	4. Failure to prepare the budget estimates	2.8 (a), (b)

		realistically.	
		5. Deficiencies in the preparation of Imprest estimates.	2.10
		6. Failure of the internal audit programs to cover all of the audits.	2.13
		7. Projects that had not progresses despite the release of funds.	2.2.2 (e)
128 (b)	(1)	The organisation 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 of monies received, the authorization 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.	2.2.2 (b) 2.2.2 (c), (d)
128 (1) (c)		The Financial Regulations and other supplementary instructions of the Government are adhered to in his department, and that they are supplemented by departmental instructions where necessary.	2.11 2.12
128 (d)	(1)	An adequate system of internal check for receipts, payments, and issues is maintained and tested from time to time.	2.9
		Deficiencies in the Advances to Public Officers Account.	

128 (1) (e)	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 assets management.	2.4
128 (1) (i)	The activities of his department are undertaken with due regard to economy, efficiency, propriety, and integrity expected in the transaction of public business.	<ol style="list-style-type: none"> 1. Management weaknesses. 2. Deficiencies in the Procurement procedure. 	<p>2.7</p> <p>2.3.2 (a), (b),(c)</p>
128 (1) (o)	The procedure laid down in Financial Regulations 103 to 108 is adhered to in case of losses to Government by the delays, negligence, faults or frauds on the part of officers / employees and surcharges are imposed on officers / employees responsible for such losses in terms of F. R. 156 (1).	<ol style="list-style-type: none"> 1. Losses and damages. 2. Failure to obtain security deposits from the officers involved in finance. 	<p>2.6</p> <p>2.15</p>

2. Material and Significant Audit Observations

2.1 Performance

The following observations are made.

- a) The crops of ginger and turmeric had been cultivated in areas as small as 1883 hectares and 932 hectares respectively in the year under review. The import capacity of those crops had increased by 329.4 per cent and 6.4 per cent respectively as compared with the year 2016. Nevertheless, no action had been

taken in accordance with the productivity promotion programme to increase the cultivation area of the export crops indicating low production.

- b) The Department had 10 medium sized plant nurseries, but those nurseries provided 930489 plants which was as low as 3.5 per cent of the total requirement indicating poor performance of the plant nurseries.

2.2 Planning

The following deficiencies are observed with the Action Plan prepared by the Department of Export Agriculture for achieving the expected results.

- a) Four activities that the Department had obtained provision amounting to Rs. 74.2 million for, was not included in the Action Plan of the year under review.
- b) As the periods of executing the annual activities had not been mentioned, the accuracy of imprest requirement plan could not be verified.
- c) The timeframe in which the plans would be implemented based on annual budget of the year under review had not been included in the Action Plan along with the output expected from such activities.

2.2.1 Failure to Execute the Functions

The following observations are made.

- a) Failure to execute the functions stated in the Action Plan

(i) According to the annual Action Plan, the Department had planned to execute 06 functions at an expected cost of Rs. 600 million though (inclusive of settling the outstanding bills), works worth Rs. 271.92 million therefrom had not been executed.

(ii.) Action had not been taken to commence 08 sub-projects under 03 main programmes mentioned in the Action Plan even up to 31 December 2017.

- b) Activities in Conflict with Main Functions

The Department had prepared the Action Plan having included a value of Rs. 22 million as payments made for bills of the preceding year by deviating from its key functions.

c) Failure to Achieve the Expected Level of Output

A sum of Rs. 152.05 million had been allocated for 10 sub-projects under 04 main programmes stated in the Action Plan. Due to failure in achieving the expected results as at 31 December 2017, a sum of Rs. 114.73 million had not been utilized.

d) Failure to Obtain the Expected Benefits

Provision amounting to Rs. 600 million had been made on 57 miscellaneous projects for the execution of 06 functions stated in the annual Action Plan. As the performance indicators had not been mentioned for the said functions, it could not be verified that the performance had been up to the level of expectation.

e) Projects that had not Progressed Despite the Release of Funds

Sums of Rs. 2 million and Rs. 7 million had been allocated in the years 2016 and 2017 respectively for construction of the spice information center at the spice garden commenced on 04 July 2015 in the premises of the research center in Matala. However, the project had not been commenced even up to August 2017.

2.3 Procurement Planning

Provision amounting to Rs. 676.90 million had been made in the year under review to obtain services and supplies for the Department with respect to 11 Objects through the Procurement Procedure. A sum of Rs. 403.16 million had been utilized therefrom. The following observations are made on the Procurement Plans prepared in regard to the provision made.

- a) A main Procurement Plan had been prepared for a period of 03 years in terms of Guideline 4.2 of the Government Procurement Guidelines; instead, a Procurement Plan had been prepared only for a period of one year.
- b) A Procurement Time Schedule had not been prepared describing each individual Procurement Action in chronological order as per Guideline 4.2.2 (a) of the Government Procurement Guidelines.

2.3.1 Execution of the Procurement Procedure

The following observations are made in this connection.

- a) When awarding the contract to obtain services worth Rs. 5.78 million for the 45th session of the International Pepper Conference, the contract had not been awarded to the bidder who had submitted the lowest evaluated substantial responsive bid in terms of Guideline 7.9.10 of the Government Procurement Guidelines.

- b) Contrary to Guideline 5.4.8 (a) of the Government Procurement Guidelines, the performance security valued at Rs. 311,359 had not been obtained in respect of works valued at Rs. 6.23 million.
- c) When procuring services worth Rs. 2.03 million for the 45th session of the International Pepper Conference, the late bids had been evaluated instead of being returned unopened in terms of Guideline 6.3.2 of the Government Procurement Guidelines.
- d) A sum of Rs. 7.80 million had been paid for providing hotel facilities and conducting the 45th session of the International Pepper Conference without entering into a formal agreement in terms of Guideline 8.9.2 of the Government Procurement Guidelines.
- e) When selling spices by the Department through open tenders, 4138.22 Kgs of spices valued at Rs. 1.82 million had been sold without approval in contrast with the procurement decisions taken during the 03 preceding years.
- f) According to procurement instructions and conditions, all of the items should be taken out of the premises of Head Office by paying cash in full when selling spices. However, during the 03 preceding years, the spices had been taken out after delays of over 01 month without making payments in full.

2.4 Assets Management

The following observations were made in the audit test check carried out on the assets of the Department.

- a) Failure to examine the fuel consumption
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Fuel consumption of vehicles should have been examined in terms of Section 3.1 of the Public Administration Circular, No. 30/2016, dated 29 December 2016, but fuel consumption of 118 vehicles had not been examined in the year under review or the preceding year.

- b) Utilization of vehicles under financial leasing
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- (i) Ten vehicles had been obtained by the Department on financial lease. The total expenditure incurred thereon in the year amounted to Rs. 17,837,101 comprising a sum of Rs. 15,651,700 as lease rent, and a sum of Rs. 2,185,401 on fuel and lubricants. The vehicles obtained on lease had run for 206234 Km. Accordingly, a sum of Rs. 86.49 had been spent per kilometer.
- (ii) According to Paragraph 03 of the agreement relating to obtaining vehicles on lease, dated 22 March 2017, every vehicle should be run a distance of 3000 Km per month. As for 08 vehicles, a monthly lease rent totalling Rs. 163,500 had been paid whilst lease rents of Rs. 165,000, and Rs. 198,000 had been paid for the other 02 vehicles. Lease rents totalling Rs. 15,651,700 had been paid for 10 vehicles relating to the period from April to December, 2017. Nevertheless, 07 of the 10 vehicles obtained on lease had not been run for 3000 Km in any month whilst the

other 03 vehicles too had been run for a distance of less than 3000 Km in 07 months.

c) Idle and underutilized vehicles

It was observed in audit test check that some of the assets had remained idle or underutilized as shown below.

Category of Asset	No. of Units	Value	Idle Period
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		Rs.	
(i.) Lands (Hectares)	51.72 Acres	Cannot be Verified	Cannot be Verified
(ii.) Buildings	603 Square Feet	- Ditto -	From 22 March 2017
(iii.) Motor Vehicles	04	- Ditto -	Cannot be Verified

d) Assets released to external parties

Instances were observed wherein buildings had been released irregularly to external parties by the Department. Particulars are given below.

No. of Assets/Units/Quantity	Institution to Which Assets had been Released	Value	Duration
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		Rs.	
Government extension quarters, Pallepola, Matale	Divisional Secretariat, Pallepola.	Not made available.	From 2003
Government quarters for Extension Officers, Hunuketaela, Matale.	Divisional Secretariat, Ambangahakolare.	Not made available.	From 2004

e) Irregular utilization of assets belonging to other institutions

It was observed in audit that 40 plots of land and 33 vehicles belonging to other institutions had been made use of by the Department without taking over properly.

2.5 Commitments and Liabilities

Incurring Commitments in excess of Annual Budget

The following observations are made in this connection.

- (i.) Liabilities had been incurred by the Department in respect of 06 capital Objects valued at Rs. 2.26 million by exceeding the provision contrary to Financial Regulation 94 (2).
- (ii.) The Department had incurred liabilities valued at Rs. 120.7 million by deviating from the provisions of Public Account Circular, No. 255/2017, dated 27 April 2017.

2.6 Losses and Damages

When awarding the contract to obtain hotel facilities for the 45th session of the International Pepper Conference, the contract had not been awarded to the bidder who had submitted the lowest evaluated substantial responsive bid in terms of Guideline 7.9.10 of the Government Procurement Guidelines, and hence, a loss of Rs. 411,000 had been sustained.

2.7 Management Weaknesses

The following weaknesses were observed in audit test checks.

- a) Despite the possibility of increasing the area of cultivations with decreased produce due to low density of crops and weak management of crops, action had not been taken to increase the area where betel should be cultivated by conducting researches.
- b) Action had not been taken in terms of procurement guidelines and conditions to blacklist the tenderers who breached conditions when selling spices through open tenders.
- c) Although an income of Rs. 13.09 million had been earned through the sale of manufactured spices, no action had been taken to package the spices preserving the quality thereof so as for achieving the main objectives of the Department.
- d) Although the ranking of spices had been shown on the website of the Department, manufactured spices with the tender value of Rs. 11.61 million had been sold without being ranked during the 03 preceding years.
- e) The reasons attributable to the decrease in the coconut harvest in the year 2017 by 55 per cent as against the year 2012, had not been analyzed by the

Intercropping & Betel Research Station in Narammala thus failing to recommend solutions.

- f) When selling the coconut harvested from the premises of the Intercropping & Betel Research Station, market prices of coconut had not been evaluated by appointing an independent pricing committee.

2.8 Utilization of Provision Made by Parliament for the Execution of Functions

Information relating to the utilization and saving of provision made for the Department of Export Agriculture during the period of 05 years ended as at 31 December 2017, and the audit observations thereon, are as follows.

Year	Type of Expenditure	Net Provision	Utilization	Savings	Savings as a Percentage of Net Provisions
		Rs. Millions	Rs. Millions	Rs. Millions	
2013	Recurrent	329.19	326.13	3.06	0.92
	Capital	415.80	244.92	170.88	41.10
	Total	744.99	571.05	173.94	23.35
2014	Recurrent	407.64	407.35	0.29	0.07
	Capital	380.65	300.05	80.60	21.17
	Total	788.29	707.40	80.89	10.26
2015	Recurrent	564.67	549.55	15.12	2.68
	Capital	428.10	416.57	11.53	2.69
	Total	992.77	966.12	26.65	2.68
2016	Recurrent	603.31	566.76	36.55	6.06
	Capital	503.70	431.45	72.25	14.34
	Total	1,107.01	998.21	108.80	9.83
2017	Recurrent	604.20	604.13	0.07	0.01
	Capital	674.20	400.52	273.68	10.59
	Total	1,278.40	1,004.65	273.75	21.41

The following observations are made in this connection.

- a) Fifty nine per cent of the net provision made for the capital expenditure in the year under review, and 99.98 per cent of the net provision made for recurrent expenditure had been utilized. As such, a cost more than that of achieving the objectives of the Department, had been incurred for maintenance thereof.

b) Appropriation Account

The following observations are made.

- Failure to utilize the provision made.

A sum amounting to Rs. 263.21 million out of provision totalling Rs. 626.6 million made for 05 Capital Objects, had been saved without being utilized indicating 18 per cent – 42 per cent of the provision. According to the reasons given in regard to the saving of provision, the relevant activities had not been carried out efficiently, and it was observed in audit that action had not been taken even to commence some of the activities.

- The total net provision of Rs. 10,000,000 made for an Object had been saved.

2.9 Advances to Public Officers Account

Limits Authorized by Parliament

The actuals, and limits authorized by Parliament for the Advances to Public Officers Account under Item No. 28901 relating to the Department, are as follows.

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
45.00	44.03	28.00	28.61	105.00	94.32

The following observations are made in this connection.

- (a) Failure to Recover the Outstanding Loan Balances

According to the reconciliation statement made available to Audit, the total of the outstanding loan balances amounted to Rs. 1,105,438 as at 31 December 2017 excluding the balances pertaining to the officers who had been transferred out. Even though the said loan balances had remained due over a period of 04 months – 05 years, the Department had failed to recover them.

(b) Issue of Loans Contrary to Provisions

Of the loans granted by the Department in 02 instances to the officers without following the provisions relating to the issue of loans, a balance totalling Rs. 563,550 had not been recovered.

2.10 Imprest Account

The balance of the Imprest Account, No. 7002/0000/00/0087/0017/000 relating to the Department amounted to Rs. 2,536 as at 31 December 2017. The following observations are made in this connection.

- (a) Contrary to provisions stated in Financial Regulation 371 (2) as amended by Public Finance Circular, No. 03/2015, dated 14 July 2015, ad hoc Sub-Imprests totalling Rs. 624,520 had been granted to 08 non-staff grade officers in 15 instances.
- (b) The ad hoc Sub-Imprest obtained should be settled within 10 days from the date of completing the intended purpose in terms of Financial Regulation 371 (5) as amended by the aforesaid Circular, but the ad hoc Sub-Imprests given in 08 instances totalling Rs. 431,850 had been settled after a delay ranging from 01 month to 03 months from the date of completion of the intended purpose.
- (c) In terms of Financial Regulation 371 (2) (b) as amended by the aforesaid Circular, the maximum of ad hoc Sub-Imprest issuable to a staff officer at a time should be Rs. 100,000, but in 16 instances, ad hoc Sub-Imprests totalling Rs. 514,303 had been issued to 11 officers in excess of that limit.
- (d) The advance of Rs. 420,579 given in 11 instances, had been retained at hand and settled in full without being used for any purpose. Action had not been taken in terms of Sections 6.2 and 6.7 of Chapter XLVIII of the Establishments Code relating to retaining public funds at hand.
- (e) Of the advance totalling Rs. 563,220 granted to the officers in 16 instances, an amount of Rs. 302,681 in the range of 33.4 per cent – 73.84 per cent had been settled due to failure in preparing accurate estimates when granting advances.
- (f) As for the settlement of advance amounting to Rs. 100,000 granted to the officers on a specific purpose, 09 officers had spent their own monies amounting to Rs. 439,367 thereby obtaining a reimbursement from the Department later.

2.11 Failure to Maintain Books and Registers

It was observed in audit test checks that the Department had not maintained the following Registers in an up-to-date manner.

Name of Register -----	Relevant Regulation -----
(a) Register of Fixed Assets	Treasury Circular, No. 842, dated 19 December 1978, and Appendix 11 of Financial Regulation 502 (2).
(b) Register of Fixed Assets on Computers, Accessories, and Software.	Treasury Circular, No. IAI/2002/02, dated 28 November 2002.
(c) Register of Securities.	Financial Regulation 891 (1).
(d) Register of Liabilities.	Financial Regulation 214.
(e) Stock Book on Fuel and Lubricants.	Financial Regulation 1647 (c).
(f) Register of Listing Vehicles.	Financial Regulation 1647 (e).
(g) Attendance Register of Procurement Committee and Technical Evaluation Committees.	Guideline 2.11.2 of the Government Procurement Guidelines.
(h) Register of Flora.	Department Circular, No. 2/2015/Accounts, dated 05 August 2015.
(i) Register of Harvest and Register of Productivity.	Department Circular, No. 2/2015/Accounts, dated 05 August 2015.

2.12 Non-compliances

Non-compliances with Laws, Rules, and Regulations

The instances on non-compliances with the provisions of Laws, Rules, and Regulations observed in the audit test checks, are analyzed below.

Reference to Laws, Rules, & Regulations. -----	Value -----	Non-compliance -----
	Rs.	
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka. ----- Section 4.8 of Chapter XV.	15,471,650	When two officers had proceeded abroad with full-pay academic leave, a confirmation on the properties of the guarantors signing the bonds, had not been obtained.

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

Financial Regulation 177 (4), and 491 (a).

- A "Letter H. Account" had not been prepared monthly and presented to the Auditor General through the Accounting Officer in terms of Financial Regulation 491 (a).

(c) National Budget Circulars.

Budget Circular, No. 5/2016, dated 28 December 2016.

- Procurement activities had not been completed within the first quarter.

(d) Public Accounts Circulars.

Circular, No. 256/2017, dated 05 July 2017.

409,585 (i) Loan balances of 03 officers that should have been shown under 03 different categories in the Advances to Public Officers Account, had been shown under the same category.

188,120 (ii) An age analysis had not been furnished relating to loans of 04 officers in the Advances to Public Officers Account.

2.13 Internal Auditor General

The following observations are made in this connection.

- a) The Internal Audit Unit of the Department had not drawn their attention on system analysis and performance analysis in terms of Section 07 of the Management Audit Circular, No. DMA/2009 (1), dated 09 June 2009.
- b) When the internal audit plan had been prepared by the Department, attention had not been drawn to examine the activities involving most of the risks.

c) Internal Control

Goods receipt notes had not been issued for the stocks received by the main stores of the research farm in Matale from the Farm Division. The Farm Division too had not maintained records relating to the items handed over to the stores, and hence, a formal internal control methodology had not been established in regard to activities such as, harvesting, processing and drying.

2.14 Human Resource Management

Approved Cadre, Actual Cadre, and Expenditure on Personnel Emoluments

- a) Information relating to the approved cadre, actual cadre, and vacant & excess positions as at 31 December 2017, is given below. A sum of Rs. 514.95 million had been spent by the Department on personnel emoluments for the year under review. As such, the expenditure per person amounted to Rs. 461,009.

Category of Employee	Approved Cadre	Actual Cadre	No. of Vacancies
	Permeant	Permeant	Permeant
(i.) Senior Level	84	67	17
(ii.) Tertiary Level	28	05	23
(iii.) Secondary Level	800	647	153
(iv.) Primary Level	353	275	78
(v.) Contract Basis	94	*123	-
Total	<u>1362</u>	<u>1117</u>	<u>271</u>

- Ninety seven posts had been approved on contract basis in addition to the approved cadre. As 131 persons had been employed, permanence in service had been granted on personal to holder basis in accordance with Letter, No. DMS/1227/viii of the Additional Director General of the Department of Management Services, dated 11 September 2015. Although the actual number is 123 at present, vacancies would not be filled up to 97 posts approved.

The following observations are made in this connection.

- (i.) The Department had not taken measures to fill 271 vacancies.
- (ii.) The Attorney General had been informed as to the recovery of penalty amounting to Rs. 2,651,500 from a Research and Development Assistant who had vacated the service by obtaining fully-paid foreign academic leave without completing the mandatory period of service. However, the Attorney General's Department had not recommended the suitable measures in that connection even up to June 2018; hence, the penalty could not be recovered.

(iii.) Training the Staff

No training whatsoever had been provided in the year under review for 90 officers of 05 posts in the Department.

- b) The existence of 271 vacancies including 17 vacancies in the senior level as at the end of the year under review, had mainly attributed for the physical progress of the Action Plan to become 48 per cent.

2.15 Securities of the Government Officers

Although securities should have been obtained in terms of Financial Regulation 880 and Public Officers' (Security) Ordinance, action had not been taken to obtain securities from the officers of the research institution in Matale.