

**Report of the Auditor General on Head 281 – Department of Agrarian Development -
Year 2015**

The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 281 - Department of Agrarian Development for the year ended 31 December 2015 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 Commissioner General of the Department on 25 July 2016. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and 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 and the Accounting Officer for the Accounts and the Reconciliation Statements

The Chief Accounting Officer and the Accounting Officer are 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 the Public Finance and Administrative Regulations. The 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

(a) Total Provision and Expenditure

The total net provision made for the Department amounted to Rs.8,162.09 million and out of that Rs.7,831.99 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision of the Department amounted to Rs.330.10 million or 4.04 per cent. Details are given below.

Expenditure	As at 31 December 2015			Savings as a Percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs.Millions	Rs.Millions	Rs.Millions	
Recurrent	6,076.09	5,988.42	87.67	1.44
Capital	2,086.00	1,843.57	242.43	11.62
Total	8,162.09	7,831.99	330.10	4.04

(b) Utilization of Provisions made available by other Ministries and Departments

Provisions totalling Rs.305.95 million had been made available by another Ministry and 04 Departments for various activities of the Department. Out of that, provisions amounting to Rs.285.71 million had been utilized by the end of the year under review. Accordingly, the savings out of the provisions made, amounted to Rs.20.24 million and represented 6.62 per cent.

2.2 Advance Account

2.2.1 Advances to Public Officers Account

Limits Authorized by Parliament

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.28101 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
261.76	214.54	191.76	227.94	500.00	375.17

2.3 General Deposit Accounts

The balances of 08 Deposit Accounts under the Department as at 31 December 2015 totalled Rs.306.94 million. Details appear below.

Deposit Account Number	Balance as at 31 December 2015
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	Rs. Millions
6000/0000/00/0015/0136/000	2.65
6000/0000/00/0006/0051/000	121.66
6000/0000/00/0002/0010/000	5.74
6000/0000/00/0001/0010/000	0.01
6000/0000/00/0013/0024/000	1.04
6000/0000/00/0018/0011/000	9.30
6000/0000/00/0016/0009/000	141.15
6000/0000/00/0013/0032/000	25.39

Total	306.94
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2.4 **Audit Observation**

The Appropriation Account and the Reconciliation Statements of the Department of Agrarian Development for the year ended 31 December 2015, have been prepared satisfactorily subject to the Audit Observations, appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

3. **Material and Significant Audit Observations**

3.1 **Presentation of Accounts**

Even though the Department should have presented the following accounts of the Agrarian Services Centres to audit by 28 February 2016, the accounts as shown below had not been presented to Audit even by 31 May 2016.

<u>Year</u>	<u>Number of Accounts not presented</u>
2006	14
2007	14
2008	13
2009	15
2010	22
2011	23
2012	29
2013	41
2014	48
2015	142

3.2 **Non-maintenance of Registers and Books**

It was observed during the course of audit test checks that the Department had not maintained the Register of Listing of Motor Vehicles in the updated manner and other Registers shown below had not been maintained.

<u>Type of Register</u>	<u>Relevant Regulation</u>	<u>Observations</u>
(a) Register of Listing of Motor Vehicles	Financial Regulation 1647 (e)	Not updated.
(b) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978	Not maintained.
(c) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002	Not maintained.
(d) Inventory of Electrical Fittings	Financial Regulation 454(2)	Not maintained.
(e) Security Register	Financial Regulation 891(1)	Not maintained.

3.3 General Deposit Accounts

The following observations are made.

- (a) An age analysis of the Deposit Account No. 6000/0000/00/0015/0136 had not been furnished to audit.
- (b) A difference of Rs.651,797 was observed between the balance of the Deposit Account No.6000/0000/00/0006/0051/000 as at 31 December 2015 according to the Books of the Department and the balance as at that date according to the Treasury Books.

3.4 Reconciliation Statement of the Advances to Public Officers Account

The following deficiencies were observed during the course of audit test checks carried out in respect of the Reconciliation Statement as at 31 December 2015 relating to the Advances to Public Officers Account Item No. 28101.

- (a) According to the Reconciliation Statement presented to Audit, the balances that remained outstanding as at that date totalled Rs. 20,491,584. Even though those outstanding balances remained over periods ranging from 01 year to 05 years, the follow-up action on the recovery of those outstanding loan balances had been at a weak level.
- (b) A difference of Rs.2,623,580 was observed in comparing the total of the Individual Balances Classification Summary with the balance of the Control Account. This difference included the difference of Rs.246,528 of the Individual Balances Summaries as at 31 December 2007, unidentified debit balance of Rs.2,889,908 and unidentified credit balance of Rs.512,856.
- (c) The total loan balances as at 31 December 2015 of the officers who had been retired, interdicted and service terminated on which action in terms of Section 4 of Chapter XXIV of the Establishments Code, had not been taken totalled Rs.16,542,960 and those balances included a loan balance of Rs.7,048,802 existing over a period exceeding 05 years.
- (d) Action had not been taken to recover a loan balance of Rs.30,740 recoverable as well from three elected Members of Pradeshiya Sabhas.
- (e) Loan balances of Rs.486,944 recoverable from Officers of the Agrarian Services who had been absorbed as Provincial Council Officers, had been existing over periods exceeding 06 years and action had not been taken to settle those balances as well.
- (f) Even though the loan balances of the officers who had transferred in and out should be settled within 03 months in terms of the National Budget Circular No.118 of 11 October 2004, the loan balances of transferred officers totalling Rs.3,415,748 had been existing in the Department over periods exceeding 06 years without being settled.

3.5 Good Governance and Accountability

3.5.1 Annual Action Plan

Activities that should be executed in 06 Divisions had not been included in the Action Plan prepared for the year under review.

3.5.2 Internal Audit

An adequate internal audit had not been carried out in the Head Office and District Offices.

3.5.3 Annual Performance Report

Even though the Department should table the Performance Report in Parliament within 150 days after close of the financial year in terms of the Public Finance Circular No. 402 of 12 September 2002, that Report had not been tabled in Parliament even by 30 June 2016.

3.6 Assets Management

The following deficiencies were observed during the course of audit test checks of the assets of the Department.

(a) Idle and Underutilized Assets

It was observed during the course of audit test checks that certain assets categorized below had been either idle or underutilized.

Type of Assets	Number of Units	Idle or Underutilized Period
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Motor Vehicles	09	From 2 years to 5 years
Machinery	100	From 2 years to 10 years

(a) Conduct of Annual Boards of Survey

The following observations are made.

- (i) According to the Public Finance Circular No. 02/2014 of 17 October 2014, the Board of Survey for the year 2015 should be conducted and the reports thereon should be furnished to the Auditor General before 31 March 2016. Nevertheless, the Department had not furnished the reports of 02 District Offices and the Head Office even by 22 July 2016.
- (ii) A Board of Survey Report in respect of motor vehicles and bulldozers belonging to the Department had not been presented for the year under review.
- (iii) Relevant Code Numbers of the assets had not been indicated in terms of the provisions of the State Accounts Circular No. 174 of 14 October 2004.

- (iv) Even though 72 four wheel tractors, 25 trailers, 36 two wheel tractors and 247 other agro equipment of the Department had been identified for disposal, disposal activities had not been completed.

3.7 Non-compliances

Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with the provisions in laws, rules and regulations observed during the course of audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliance
	Rs.	
(a) Statutory Provisions		
(i) Agrarian Development Act, No. 46 of 2000.		
• Section 14(3)	894,831	The money payable to the owners deposited by the Tenant Cultivators of disputed lands in 07 Agrarian Centres in the Kurunegala District had not been deposited in the District Court.
• Sections 32 and 33		Three hundred and ninety complaints of unauthorized filling up of paddy lands had been received and the number of complaints for which cases had been filed and settled, stood at 105.
• Section 53(1)	-	A Register of Agricultural Lands had not been prepared, amended, revised and maintained.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) Financial Regulation 396 (d)	2,267,532	Action in terms of Financial Regulations had not been taken in respect of expired cheques in 14 Bank Accounts of District Offices and the Bank Account of the Head Office, issued as at 31 December 2014 but not presented for payment.
(ii) Financial Regulation 751(1)	1,876,370	Materials valued at Rs.1,876,370, purchased for two Agrarian Services Centres of the Nuwara Eliya District, had not been inventoried.

(iii) Financial Regulation 756(3)	2,262,169	Action in terms of Financial Regulations had not been taken in respect of unusable/ outdated stocks of fertilizer, agro-chemicals, seeds and agro-equipment existing over a period exceeding 5 years in 11 and 26 Agrarian Services Centres of the Kurunegala and Badulla Districts respectively.
(iv) Financial Regulation 880		The Regional Officer, Committee Clerk and Agricultural Research and Production Assistant Officers of the Agrarian Service Centres at Pundaluluoya, Mandaramnuwara, Hanguranketha and Harangala had not deposited Security.
(c) Circular No.04/2012 (Agrarian Banks) of 29 February 2012 of the Commissioner General of Agrarian Development		

(i) Paragraph 3.4.2		Even though the maximum period for settling the agricultural loans had been 6 months, out of the loans granted from the year 1998 to the year 2014, a sum of Rs. 215,290,628 had been outstanding. Out of that, a sum of Rs.66,188,529 had been outstanding over periods exceeding 5 years.
(ii) Paragraph 4.2		Even though the maximum limit that can be retained in hand of the Agrarian Banks had been up to Rs.25,000 according to the requirement of transactions and the distance to the Commercial Banks, sixty Agrarian Banks had retained money in their hands exceeding that limit.
(iii) Paragraph 4.4.2		Even though capital funds granted to the Agrarian Banks should be refunded within 5 years, the non-refunded outstanding capital funds by 125 Agrarian Banks as at 31 December 2015 amounted to Rs.48,770,856.

3.8 Implementation of Projects under Domestic Financing

Instances of projects abandoned without commencing and the project delays revealed during the course of audit test checks are given below.

(a) Projects abandoned without commencing

The following Projects had been abandoned without commencing.

Project	Estimated Cost	Due Date of Commencing	Reasons for abandoning
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	Rs.		
Construction of the Agrarian Centre at Nagoda	204,000	2015	A legal problem of the land.
Construction of the Agrarian Centre at Awulegama	2,730,000	2015	Delay in carrying out procurement activities.

(b) Delays in the execution of Projects

Even though construction of the Rathnapura District Office at an estimated cost of Rs.13,542,180 should have been completed at the end of the year under review, it had not been completed in the year under review due to delays in carrying out procurement activities despite spending a sum of Rs.2,375,820 therefor in the year 2015.

(c) Money released without the Supply of Goods and Services

Payments had been made by a cheque for Rs.1,867,330 dated 30 December 2015 to a State Corporation on 03 March 2016 for the purchase of anicut planks to the Colombo District Office and those anicut planks had not been supplied even by 05 June 2016.

3.9 Performance

Observations on the progress of the Department according to the Annual Budget Estimate and the Action Plan for the year 2015 are given below.

(a.) Key Functions not Executed Adequately

It was observed during the course of audit test checks that the following several key functions of the Department had not been executed.

- (i) Provisions of Rs.135 million had been made for 12 Districts under the Programme of Cultivation of fallowed paddy lands. Paddy lands of 36,476 Hectares in extent, suitable for cultivation had been identified and out of that, only 3,362 Hectares had been developed at a cost of Rs.39 million.
- (ii) It had been targeted to obtain 2,736 test reports to improve the productivity through proper supervision of Agrarian Service Centres. Only 737 test reports had been furnished in the year under review.

- (iii) Provision of Rs.251.6 million had been made for the Programme of Encouragement of Manufacturing and Usage of Organic Fertilizer. It had been expected to develop 558 Agrarian Service Centres through 10 activities as mini agro gardens and its progress had been at the 50 per cent level.
- (iv) Provision of Rs.10 million had been made for the cultivation of abandoned paddy lands of 850 Acres in extent in 09 Districts by using organic fertilizer. Its financial progress as at 31 December 2015 had been Rs.7.9 million. Even though the physical target of the Trincomalee and Batticaloa Districts had been 100 Acres in extent, that activity had not been carried out.
- (v) Provision of Rs.1.7 million had been made for manufacturing of 8,000 Metric Tons of organic fertilizer by selecting 8,000 farmers in the Kurunegala District. It had been expected to manufacture 8000 Metric Tons of organic fertilizer thereof. The number of farmers who had commenced the manufacture of organic fertilizer by 31 December 2015 had been 6,815 and the quantity of manufactured fertilizer had been 5,282 Metric Tons.
- (vi) Provision of Rs.10 million had been made for training 10,000 selected farmers and officers in the Regional Agricultural Research and Development Centre at Makandura and 90,000 farmers in the field by the persons who were trained. Training had been given by 31 December 2015 for 4,593 farmers and 2,219 officers whereas 24,860 farmers in the field had been trained.

(c) Planning

Action not taken in accordance with the Annual Action Plan

A total sum of Rs.37,320,492 had been spent for minor irrigation reconstruction activities in 4 Districts, Programme of Cultivation of Fallowed Paddy Lands in 3 Districts and construction activities in 4 Districts, not included in the Action Plan.

3.10 Deficiencies in the Operation of Bank Accounts

Balances for Adjustment

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared by the Department of Agrarian Development for December 2015 is given below.

Particulars of Adjustments	Age Analysis			Total
	Over 06 Months less than 01 year	Over 01 Year less than 03 years	Over 03 Years	
	Rs.	Rs.	Rs.	
	Rs.	Rs.	Rs.	
(i) Cheques issued but not presented for payment	1,209,257	1,011,867	50,857	2,271,981
(ii) Unidentified Debits	357,042	1,131,284	-	1,488,326
(iii) Unidentified Credits	330,292	4,200	-	334,492

3.11 Transactions of Contentious Nature

Provision of Rs.3,500,000 had been made in the year 2014 under the Object 281-2-2-12-2502 to the Department under the Programme of Cultivation of Fallowed Paddy Lands. This provision had been released to the Department of Irrigation for the reconstruction of Korale Ela belonging to the Department of Irrigation, located in the Bandaragama Electoral Division and those reconstructions had not been completed even by 30 June 2016.

3.12 Uneconomic Transactions

Particulars on transactions entered into devoid of economy revealed during the course of test checks are given below.

- Construction of the Rambukpotha Agrarian Service Centre Building had been commenced at a cost of Rs.18,827,083 in the year 2009. That building had sunken due to improper implementation of recommendations included in the Survey Report submitted by the National Building Research Organization in respect of the movability of the land where the building is located. Those constructions had been ceased in the year 2014 and future action had not been taken thereon even by the end of the year under review.
- Out of 690 Hume Pipes purchased at a cost of Rs.1,774,650 by the Colombo District Office, 597 pipes had been retained in the Agrarian Service Centre even by 31 May 2016 without being distributed.
- Two hundred Hume Pipes purchased at a cost of Rs.2,185,035 by the Kurunegala District Office had been retained in the Agrarian Service Centre even by 30 June 2016 without being distributed.
- Hundred and sixty sluice gates purchased at a cost of Rs.10,483,839 by the Kurunegala District Office had not been used for the relevant purposes even by 30 June 2016.

- (e) A sum of Rs.1,949,898 had been paid on 31 December 2015 for the supply of sluice gates for Puwakgahakumbura and Pusselioya anicuts considering as an urgent purpose. Those sluice gates had been taken over on 01 April and 20 February 2016 and those sluice gates had not been fixed even by 03 June 2016.

3.13 Losses and Damage

The observations on losses and damage observed during the course of audit test checks are given below.

- (a) A motor vehicle of the Department had met with an accident on 27 January 2015. The party responsible for the accident had not been determined. That motor vehicle had been parked even by 20 July 2016 at the Malabe Yard.
- (b) A Preliminary Report in terms of the Financial Regulation 104(3) on the Loss caused to a motor vehicle that met with an accident on 19 November 2014 had been submitted on 20 November 2014. Even though it had been stated that the loss should be recovered from the Insurance Company, a sum of Rs.54,700 had been paid on 02 July 2015 for repairing. Insurance indemnity had not been obtained even by 20 July 2016.
- (c) A van of the Department, that met with an accident on 05 June 2015 had been repaired at a cost of Rs.1,308,353 on 29 June 2016 and a sum of Rs.1,263,032 had been received as insurance indemnity thus indicating a loss of Rs.45,321.

3.14 Management Weaknesses

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

- (a) Five officers who had submitted forged certificates had been placed on compulsory leave in May 2013 and their service was terminated on 18 October 2015. The outstanding salaries amounting to Rs.3,564,767 had been paid to these officers due to elapse of a considerable period between the date on which they had been placed on compulsory leave and the date of termination of the service.
- (b) Preliminary investigations that remained over a period exceeding 10 years had not been completed even by 08 July 2016(date of audit).
- (c) A four wheel tractor owned by the Siwalakulam Agrarian Service Centre had been allowed to be retained at the Driver's home during the period from 05 October 2013 to 07 March 2014. No income whatsoever had been received by the Agrarian Service Centre during this period. It was observed at the instance of returning this tractor to the Machinery Unit at Mihintale on 07 March 2014 that the tyres of the tractor had worn out.
- (d) The Commissioner of Agrarian Development in the Vavunia District had withdrawn a sum of Rs.3,221,449 through Farmers' Organizations for converting lands as suitable for paddy cultivation under the Dry Zone Water and Sanitation Project. The paddy land

owners had lost their opportunity to cultivate paddy during the 2015/2016 Maha Season due to suspension of the preparation of these paddy lands.

- (e) Out of the loans given under the Agrarian Bank Pilot Project, the outstanding loan as at 31 December 2015 amounted to Rs.249,237,136 and the recovery of that outstanding balance had been at a weak level.

3.15 Human Resources Management

(a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2015 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	123	70	53
(ii) Tertiary Level	645	488	157
(iii) Secondary Level	16,066	13,329	2,737
(iv) Primary Level	1,543	527	1,016
Total	18,377	14,414	3,963

(b) Release of Human Resources to other Parties

It was observed that 04 Agricultural Research and Production Assistants and one Agrarian Development Officer had been released by the Department to other parties in the year under review.