

Head 281 – Department of Agrarian Development

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Department of Agrarian Development for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, and cash flow statement for the year then ended, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. The Summary Report containing my comments and observations on the financial statements of the Department of Agrarian Development was issued to the Chief Accounting Officer on 31 May 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Department of Agrarian Development was issued to the Accounting Officer on 31 May 2019 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the Department of Agrarian Development as at 31 December 2018 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Chief Accounting Officer and Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and fair position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Department is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Department in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- It is not intended to express an opinion on the effectiveness of internal control of the Department to plan appropriate audit procedures in a timely manner.
- Evaluate Structure of Financial Statements Including Disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- That the transactions and events underlying the structure and content of the financial statements are appropriately and fairly when submitting financial statements as a whole.

The Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (d) and Section 38 of the National Audit Act No. 19 of 2018.

- (a) As there was no need for the Department of Agrarian Development to prepare financial statements for the previous year, it was impossible declare the financial statements for the year under review were consistent with those of the previous year.
- (b) As there was no need for the Department of Agrarian Development to prepare financial statements for the previous year, the recommendations for the financial statements of the preceding year had not been furnished.

1.6 Comments on Financial Statements

1.6.1 Submission of Accounts

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
<p>(a) Annual Financial Statements</p> <p>-----</p> <p>Even though in terms of the Public Accounts Circular No. 267/2018 dated 21 November 2018 financial statement for the year 2018 should be furnished to the Auditor General before 28 February 2019, it was furnished to the audit on 02 April 2019 after a delay of 01 month.</p>	<p>Action should be taken according to the Public Accounts Circular.</p>	<p>No comments.</p>
<p>(b) Reconciliation Statement of the Advances to Public Officers Account</p> <p>-----</p> <p>Even though in terms of Public Accounts Circular No. 267/2018 dated 21 November 2018 reconciliation statement of the advances to the public officers account item No. 28101 should be furnished to the Auditor General before 28 February 2019, it was</p>	<p>Action should be taken according to the Public Accounts Circular.</p>	<p>No comments.</p>

presented to the audit on 27 May 2019 after a delay of 03 months.

1.6.2 Statement of Financial Position

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Land valuation of 553 Agrarian Service Centers, 05 Mechanical Yards belonging to the Department, 25 District Offices and Head Office of the Department were not included in the statement of financial position. Similarly, land value of 35 Agrarian Service Centers was assessed in 2013, but these values were not included in the Financial Statement.	Action should be taken according to the State Accounts Circular No. 267/2018 dated 21 November 2018.	Action had been taken to enter the valuation amount of all fixed assets to the CIGAS programme in the year 2019 which was not included in the fixed assets register.
(b) Building valuation of 553 Agrarian Service Centers, 05 Mechanical Yards belonging to the Department, 03 Head Office buildings and the Fertilizer Stores Buildings of the Puttalam District Office were not included in the financial position statement	Action should be taken according to the State Accounts Circular No. 267/2018 dated 21 November 2018.	I inform that action had been taken to include the value of 152 Agrarian Service Centers out of the 553 Agrarian Service Centers under the Department's 25 District Offices. Building in the CIGAS program for the year 2019. Details in respect of all the remaining buildings have been submitted to the Department of Valuation and up to now valuation assessments had not been received.
(c) The work in progress amount of construction work of the Ratnapura and Kilinochchi District Offices was Rs. 10,960,648 and it was recorded as purchases during the	Action should be taken according to the State Accounts Circular No. 267/2018 dated 21	The building and construction value of Rs. 7,008,726 of the Ratnapura District office is the final payment made

year, and due to that the value of the financial asset acquisition value was overstated and the work in progress amount was understated by that amount.

November 2018.

in 2018, so that value was capitalized under the purchase and acquisition of the building and construction during the year. Further, I inform you that the work in progress building and construction value of Kilinochchi District Office amounting to Rs. 3,951,922 has been shown under the work in progress in the Assets Register.

- | | | | |
|-----|---|--|---|
| (d) | Even though 04 vehicles valued at to Rs. 7.9 million had been auctioned during the year under review, those values had not been removed from the fixed assets register. | Action should be taken according to the State Accounts Circular No. 267/2018 dated 21 November 2018. | Value of those 4 vehicles had been removed from the fixed assets register through CIGAS programme from the monthly summery of January 2019. |
|-----|---|--|---|

1.6.3 Cash Flow Statement

Following Observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) Even though a sum of Rs.10,061,312,829 had been shown in the cash flow statement as non-revenue receipts, total of imprest receipts from the Treasury and other receipts were amounted to Rs.10,780,891. Accordingly, a sum of Rs. 718,933,062 had been understated.	Action should be taken according to the State Accounts Circular No. 267/2018 dated 21 December 2018.	No comments.
(b) Even though a sum of Rs.10,160,120,306 shown in the cash flow statement under personal emoluments and operating expenses, grants and transfers, purchasing of physical	- Do -	No comments.

assets and acquisition of other investments, according to the information furnished to audit it was Rs.10,130,218,625. Accordingly, a sum of Rs.29,901,681 had been understated in the cash flow statement.

- | | | | |
|-----|--|--|--------------|
| (c) | Advance receipt of Rs.279,526,261 and Advance payment of Rs. 326,341,393 which should be included in the net cash flow from investment activities, had not shown. | - Do - | No comments. |
| (d) | Even though the Department had not done any financing activities during the year under review, a sum of Rs.905,304,674 had been shown under the net cash flow from financing activities as payments in the deposits account and advances to the public officer's accounts. | - Do - | No comments. |
| (e) | Even though, the cash and cash equivalent amount of Rs.400,395 had been shown in the statement of financial position, it was stated that there was no any cash balance in the cash flow statement at the end of the year. | Action should be taken according to the State Accounts Circular No. 267/2018 dated 21 December 2018. | No comments. |

1.6.4 Lack of Evidences for Audit

Audit evidences for following transactions had not been furnished.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
In terms of the Financial Regulation 272(2) 110 incomplete payment vouchers valued at Rs.13,085,959 had not been presented to audit in the year 2018 by the Department.	Action should be taken according to the Financial Regulation 272(1) and Treasury Circular No.320 dated 21 July 1993.	No comments.

1.6.5 Certifications to be made by the Accounting Officer

Although the Accounting Officer should certify the following matters in terms of the provisions of Section 38 of the National Audit Act, No. 19 of 2018, actions had not been taken accordingly. Details are given below.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The Chief Accounting Officer and the Accounting Officer should ensure that the annual and other financial statements are prepared within the time period and in addition the Chief Accounting officer should be responsible for tabling the audited financial reports of the entity in the Parliament, as per the observation made in Paragraph 3.2 of the report, that requirement had not been fulfilled.	Action should be taken in terms of the Section 38 of the National Audit Act No.19 of 2018.	No comments.
(b) Although the Chief Accounting Officer and the Accounting Officer should ensure that the replies are made for all audit queries within the specified time frame required by the Auditor General, as per the Paragraph 3.5 of the report replies had not been made for audit queries	Action should be taken in terms of the Section 38 of the National Audit Act No.19 of 2018.	-

1.6.6 Non-compliance with Laws, Rules and Regulations

Instances of non-compliances with Laws, Rules and Regulations observed in the audit test check are analyzed and shown below.

Observation ----- Reference to Laws, Rules and Regulations -----	Non-compliance -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Statutory Provisions -----			
Section 31 of the Agrarian Development Act No.46 of 2000	Although the permission was granted to build a house on the beams, three shops within more than 10 perches had been built and vehicles had been parked filling the lower area, but it was not examined.	Should be act according to the Agrarian Development Act.	No comments.
(b) Financial Regulations of the Government -----			
Financial Regulation 1647	List of motor vehicles including vehicle details had not been prepared by the officers –in-charge of the vehicles.	Action should be taken according to the Financial Regulations.	No comments.
(c) Public Administration Circulars -----			
Circular No.2009/9 dated 16 April 2009	Finger print machines had not been used to note in and out of the office of the officers in 561 Agrarian Service Centers and 535 agrarian banks of the Department of Agrarian Services.	Action should be taken according to the Public Administration Circular.	Action will be taken to correct.

2. Financial Review

2.1 Expenditure Management

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Since overprovisions had been made for 10 Objects, the savings after the utilization of provisions had been ranged between 17 per cent to 85 per cent of the provision relevant to those Objects.</p>	<p>Action should be taken according to the Financial Regulation 50.</p>	<p>The General Treasury is releasing money not on Object Codes but under the heads of Capital, Recurrent, Remuneration and Advance "B" Account. Therefore, the Department had requested imprests to fulfill the above needs.</p>

2.2 Making Liabilities and Commitments

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>A sum of Rs. 7,995,849 obtained from 18 Agrarian Service Centers belonging to Anuradhapura District Office had not been included in the liabilities of the year.</p>	<p>Commitments and liabilities should be accounted properly.</p>	<p>Action had been taken to settle most of money payable to Centers and please be kind enough to give a period of 14 days to give a detailed answer regarding payable furthermore because it will take time.</p>

2.3 Utilization of Provisions made by Other Ministries and Departments

 Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) A sum of Rs. 400,000 allocated by the Ministry of Agriculture under the Saralanka Loan Scheme for the promotion of organic fertilizer production to Kalutara and Matara District Offices in the years 2017 and 2018, respectively, had not been utilized for the purpose.	Action should be taken to utilize the money received for special projects within the relevant financial year.	This money had been delivered to the farmers in the year 2019.
(b) The total amount of loan of Rs. 900,000 given to three farmers by three Agrarian Service Centers for the production of organic fertilizer had not been utilized for that purpose.	Responsible officers should supervise the utilization of money given for special projects.	Installments are being paid properly and the relevant debtor could not settle the money for a short period.
(c) The Ministry of Fisheries and Aquatic Resources Development and Rural Economy has allocated Rs.3,673,000 for the development of the Gammanpila Tank under the Aquaculture Establishment Project. Payments relating to this had been certified by the Regional Engineer, when the work had not been completed.	Action should be taken according to the Financial Regulations.	It was completed by 29 December/2018 and The Regional Engineer had confirmed that the work had been completed on 31.12.2018 and, at the end of 2018; the relevant payment had been approved by the Assistant Commissioner in charge of the Division. No provisions received up to date for the payment of the work done by the contractor.

- (d) It was prepared an estimate of Rs. 1,579,332 for the construction of Panadura Bojunhala of the Ministry of Agriculture and the construction work had been completed in December 2018. It could not be used and remained idled due to a stairway to access the restaurant was built.
- Utilization of the money received for special projects should be supervised by responsible officers.
- No comments.

2.4 Issuing and Settling Ad-hoc Imprests

 Following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Although Ad-hoc sub imprests should be settled before the close of the year of issuance in terms of section 371 (6) of the Financial Regulations, contrary to that, the Ad-hoc sub imprest amounting to Rs. 228,125 issued in the year 2018 was settled in 2019 without being settled in 2018. Ad-hoc sub imprest amounting to Rs. 180,000 issued to 04 officers in 2018 has not been settled even by 14 February 2019.	Action should be taken according to the Financial Regulation 571.	No comments.
(b) Even though ad-hoc sub imprests should be settled within 10 days after completing the activity in terms of Financial Regulation 371(5), ad-hoc sub imprest amounting to Rs. 5,601,944 given to 30 officers in 275 instances during the year under review had been settled after a delay of time ranged between 31 days to 352 days.	Action should be taken according to the Financial Regulations.	No comments.

2.5 Deposit Balances

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) A sum of Rs. 184,432 and Rs.5,958,319 given by the Board of Investment of Sri Lanka (BOI) in 2015 and 2018, respectively to the Department were retained in the Deposit Account as at 31 December 2018 without being used for the related activities.	Action should be taken to utilize money for the relevant activity which was received for various activities from other institutions.	Action will take to correct in future.
(b) A sum of Rs. 226,551 received for the Chuggalmodara Marine Control Project on 1 July 2016 and held for more than 02 years in the General Deposit Account without being utilized.	Action should be taken to utilize money for the relevant activity which was received for various activities from other institutions.	It could not be able to pay due to lack of imprest. Action will be taken to pay in future.
(c) A sum of Rs.39,751,808 received from the District Offices and Agrarian Service Centers from the year 2015 to 2018 for the settlement of fertilizer advance had been remained in the General Deposit Account without paying to the relevant institution.	Should be settled to the relevant institutions after identified the balances of the General Deposit Account.	Out of the money received in the year 2016 a sum of Rs. 12.2 million had been paid to the Ministry of Agriculture and action will be taken to pay the balance money in future.
(d) Retention money totalling Rs.2,353,842 held relating to contracts had been retained in the General Deposit Account for a period of 02 years to 05 years.	Retention money should be paid after checking any shortcoming in the contract.	Action will be taken to pay after obtaining the recommendations of the Technical Officers after their examination.
(e) Even though the lapsed deposit exceeding 02 years should be clear after a proper investigation in terms of Financial Regulation 571, action had not been taken relating to deposits of Rs.44,319,691 in 05 General Deposit Accounts which were exceeding 2 years as at 31	Action should be taken according to the Financial Regulations.	Kindly inform that action will be taken to present.

December 2018.

2.6 Operation of Bank Accounts

Following observation is made.

Audit Observation

Action had not been taken in terms of Financial Regulation 396(d) in respect of 229 cheques lapsed over 06 months amounting to Rs. 4,158,109 shown in the Bank Reconciliation as at 31 December 2018.

Recommendation

Action should be taken according to the Financial Regulations.

Comments of the Accounting Officer

Action will be taken to clear the cheques.

2.7 Advances to the Public Officers Account

Following observation is are made.

Audit Observation

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, there were loan balances amounted to Rs.1,754,679 of 32 officers transferred out as at 31 December 2018. Further, the receivable loan balances of 03 transferred in officers amounted to Rs. 336,227.

Recommendation

Action should be taken according to the National Budget Circular No. 118 Dated 11 October 2004.

Comments of the Accounting Officer

No comments.

3. Operating Review

3.1 Activities not Fulfilled

Following observations are made.

Audit Observation

(a) Even though provision amounting to Rs. 4,506,448 had been made in the year 2018 for the construction

Recommendation

Action should be taken according to the action plan.

Comments of the Accounting Officer

No comments.

of the Palannoruwa Ambalankanuwa Anicut, the activity had not been commenced even by 31 December 2018.

- (b) Relevant certificates had not been issued even by 31 December 2018 for the applications submitted by the farmers of the Galle and Kalutara District Offices in the years 2014,2015 and 2016 for obtaining certificates to use the paddy lands for another purpose/ to certify that it was not a paddy land.
- Responses to the application should be done without delay. No comments.

3.2 Annual Performance Report

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Even though in terms of Public Finance Circular No. 402 dated 12 September 2002 the performance report for the year under review should be tabled in the Parliament within 150 days after the financial year, those reports for the years 2016, 2017 and 2018 had not been tabled in the Parliament.	Action should be taken according to the Public Finance Circular.	2016 – Approval of the Ministry of Agriculture had been received and submitted for the approval of the Cabinet. 2017 - Approval of the Ministry of Agriculture had been received and, translation of Tamil and English version in progress. 2018 – Submitted for the approval of the Ministry of Agriculture on 23 May 2019.

3.3 Assets Management

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Action had not been taken to effectively utilize the water bowser, bulldozer and 01 wheel loader which were in the Mechanical Premises in Mihinthalya for over 1 ½ years.	Assets should be managed properly.	Relevant machineries are rented out only on the requests made by the Farmer organization and as the relevant machine operators of

the Mihinthalya mechanical unit are Government permanent workers, salaries should be paid to them even were not utilized.

3.4 Security Deposits of the Government Officers

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Even though according to the Financial Regulation 880 the officers who should deposit securities in terms of section 612 of the Security Ordinance, 9,540 officers had not been deposited securities.	Action should be taken according to the Financial Regulations.	A security deposit register had not been maintained by the Department of Agrarian Development up to the year 2018 and like to inform that the basic activities had been started at present for the preparation of a security deposit register.
(b) According to the Financial Regulation 891 (1) a security register including the details of the officers and workers who should deposit security deposits had not been prepared.	Action should be taken according to the Financial Regulations.	A security deposit register had not been maintained by the Department of Agrarian Development up to the year 2018 and like to inform that the basic activities had been started at present for preparation of a security deposit register.

3.5 Not Replying to the Audit Queries

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
Replies had not been sent for 22 audit queries issued during the year under review and 13 audit queries issued last 03 years to the Department even by 31 May 2019. The countable values of the transactions of those queries were Rs. 137,585,737.	Action should be taken according to the Financial Regulations.	-

3.6 Management Weaknesses

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
-----	-----	-----
(a) An Agricultural Research and Product Assistant assigned to the Bulathsinhala Agrarian Service Center of Kalutara District had been resigned from service after noticing the Assistant Commissioner that he was appointed to the Western Province Passenger Transport Authority from 15 February 2017. A sum of Rs. 629,051 had been paid from that date to 31 October 2018 as salaries and allowances.	Action should be taken according to the Financial Regulations.	Action will take for recover the amount.
(b) Even though an Agricultural Research and Product Assistant assigned to the Baduraliya Agrarian Service Center of Kalutara District had been released on no pay for a 2 year period from 28 September 2017, a sum of Rs. 321,728 had been paid him as salaries and allowances.	Action should be taken according to the Financial Regulations.	This employee was not removed from the service and it is a temporary release. Action will be taken to recover the relevant money.
(c) Action had not been taken to settle	Action should be	These loans were

- | | | |
|---|---|--|
| <p>revolving fund loan obtained in the year 1999 and special corn loan obtained in the year 2003 from the Farmers' Trust Fund amounting to Rs. 13,447,002 and 4,204,002 respectively.</p> | <p>taken to recover relevant amount immediately and settle to the Farmers' Trust Fund.</p> | <p>granted by the Ministry of Agriculture in the year 1999 and it was transferred to our Department. Necessary actions will be taken to recover loans.</p> |
| <p>(d) Even though loans amounting to Rs. 80,790,000 had been granted to farmers of the Anuradhapura District Office in the year 2015, out of that a sum of Rs.31,077,416 had not been recovered even by 31 December 2018.</p> | <p>Action should be taken to recover relevant amount quickly and settle to the Farmers' Trust Fund.</p> | <p>Action will be taken for recovery of loans.</p> |
| <p>(e) Even though the maximum period for settling the agricultural loans was 6 months, out of the loans granted from the year 1998 to the year 2018 amounted to Rs.7,635,172,221, a sum of Rs.1,070,058,452 had not been recovered even by 31 December 2018.</p> | <p>Action should be taken by the Agrarian Service Centers to recover relevant amount.</p> | <p>Action will be taken for recovery of loans.</p> |
| <p>(f) Even though the agrarian company loans amounting to Rs. 19,131,790 granted to 05 District Offices in the year 2001 should be recovered within 06 months, out of that a sum of Rs. 13,855,243 was lapsed for 18 years and these were not recovered even by 31 May 2019. 91 per cent amounting to Rs. 10,600,000 granted to Nuwara Eliya District out of that District Offices had not been settled.</p> | <p>Action should be taken by the Agrarian Service Centers to recover relevant amount.</p> | <p>Answers called from District Offices.</p> |