

Head 118 - Ministry of Agriculture

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation & Fisheries & Aquatic Resources 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 Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation & Fisheries & Aquatic Resources Development was issued to the Chief Accounting Officer on 06 June 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 06 June 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 Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation & Fisheries & Aquatic Resources 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 opinion.

1.3 Responsibilities of Chief Accounting Officer on Financial Statements

Preparation of financial statements in a manner that reflects a true and reasonable 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 Ministry 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 Ministry 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 Ministry 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 Chief 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) of the National Audit Act No. 19 of 2018.

As there was no need for the Ministry 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 Non- compliance of Financial Statements with Circular Provisions

(a) Although the financial statements had to be prepared in accordance with the State Accounts Circular No. 267/2018 dated 21 November 2018, exclusions to those requirements are as follows.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
<p>Although the statement of commitments and liabilities under Note No. (iii) it should agree with the statement of commitments and liabilities issued by the Treasury in terms of State Accounts Circular No. 267/18 of 21 November 2018 liabilities totalled to Rs. 11,646,088,159 of 46 Objects had been overstated and the liabilities relating to 07 expenditure Objects totalled to Rs. 60,039,001 had been understated.</p>	<p>Actions should be taken as per the instructions of the State Accounts Circular.</p>	<p>Impossibility to report the liabilities to recognized after the first week of January 2019 to the Treasury and there may be differences between the liabilities of other Departments, District Secretariats and the liabilities reported to the Treasury.</p>

1.6.2 Commitments and Liabilities

The following observations are made.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
<p>(a) The liabilities totalled to Rs. 744,166 relevant to the year under review had not been stated in the financial statements.</p>	<p>Actions should be taken to include all the liabilities in the financial statements.</p>	<p>As those were not submitted from those sections on the due dates, it is unable to be entered in the account as advised.</p>
<p>(b) Although it should not enter in to commitments and liabilities beyond the allocation limits, in terms of State Accounts Circular No. 255/2017 of 27 April 2017 the liabilities totalled to Rs. 29,272,839 for 24 Objects had</p>	<p>Actions should be taken as per the State Accounts Circular</p>	<p>-do-</p>

been entered into which exceeding the balances remained as at 31 December of the year under review.

- (c) It had been entered in to liabilities amounting to Rs. 8,390,327,962 exceeding the balance remained as at 31 December of the year under review amounted to Rs. 1,449,889,412 in the Object for Fertilizer Subsidy. The liabilities to be paid as Fertilizer Subsidy for the third and fourth quarters were not specifically identified and shown in the financial statements. -do- -do-

1.6.3 Not maintaining Documents and Books

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
Record of Liabilities		
The Ministry had not maintained a Record of Liabilities in terms of Financial Regulation 214.	Actions should be taken to maintain a Record of Liabilities in terms of financial regulation 214.	Records of Liabilities are being prepared.

1.6.4 Statement for Settlement of Advances for Public Officers' Account

The audit observations revealed in this regard, are as follows.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
(a) Necessary actions had not been taken to recover a sum of Rs. 280,061 and Rs. 240,267 respectively from the employees who had left the service and been interdicted.	It Should act in terms of Section 4.6 of Chapter XXIV of the Establishments Code.	Due to the lack of loan files or personal files, legal actions cannot be taken. Further arrangements are being made to recover the debt balances. The requests have been made from the

Treasury to write off some loan balances.

- (b) Actions had not been taken to recover the disaster loan balance amounted to Rs. 222,625 from two retired and deceased officers. Necessary arrangement should be made to settle the outstanding balances in accordance with paragraphs 4.2.5 and 4.4 of Chapter XXIV of the Establishments Code. Due to not carrying out of preparation of pensions, these loan balances could not be able to recover yet.
- (c) Although the officer had to sign an Irrevocable Promise when obtaining distress loans and property loans, it had not been done. Actions should be taken in accordance with Paragraph 4.2.3 of Chapter XXIV of the Establishments Code. It was taken in to notes and to act accordingly in future.

1.6.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance with the Laws, Rules, and Regulations observed during the audit test checks are analyzed below.

Observation		Recommendation	Comments given by the Chief Accounting Officer
Reference to Laws, Rules and Regulations	Value Rs.	Non Compliance	-----
(a) Ministry of Finance Circular, No. BD / CBD / 4/1/23-2015 of 31 March 2015	796,208	A sum of Rs. 796,208 had been incurred to publish articles in newspapers for propagation of the Kahantewela Agro-Village Entrepreneurship Development Programme in contrary to the circular provisions.	Propaganda has been done considering the need to make aware the public through newspapers.

- (b) Paragraph 06 of 1,470,22 Even though -do- -do-
Public 3 arrangements
Administration should be made to
Circular No. limit the holding
11/2015 of 20 of official
May 2015 functions and to
organize the
functions at a
minimum cost, a
sum of
Rs. 1,470,223 had
been spent for the
inauguration of
the Kahantewela
Agri-Village
Entrepreneurship
Development
Programme.

2. Financial Review

2.1 Expenditure Management

The following observations are made.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
(a) The entire provisions with relevant to 05 capital objects and 03 recurrent objects amounted to Rs. 28,530,000 had been saved .	Annual estimates should be prepared in accordance with the Financial Regulation 50 .	The switching of Ministers' posts on several occasions, were caused to saving of estimated budget.
(b) Even though a provision of Rs. 642,264,809 had been made available by the Supplementary Estimates for the 06 Objects, entire provision thereon had been saved.	Annual estimates should be prepared in accordance with the Financial Regulation 50 .	The reasons such as decrease in utilization of provisions on the Cabinet reshuffle in 26 October 2018, lack of adequate imprests at the end of the year, not implementing some of the proposed projects due to bad weather

conditions in the year had affected in savings.

3. Operating Review

3.1 Planning

Audit Observation

Recommendation

Comments given by the Chief Accounting Officer

Even though an Action Plan had been prepared for the year 2018 in accordance with the Public Finance Circular No. 2014/01 dated 17 February 2014, the Annual Procurement Plan had not been included in it.

Actions should be taken in terms of the Circulars.

Actions will be taken to include the Procurement Plan from the year 2019 onwards.

3.2 Procurements

The following observations are made.

Audit Observation

Recommendation

Comments given by the Chief Accounting Officer

Obtaining an Office Building for the Ministry on Lease Basis

- (a) Even if it was 09 storied according to the approved plan for the construction of the building, 09 floors had been constructed. The attention had not been drawn in respect of that when obtaining the building on lease.
- (b) Even though the market rent for the building was Rs 13.5 million per month as per the assessment of the Chief Valuer of the Government, it had been agreed to pay a sum of Rs. 21 million rent exceeding the was agreed to be paid.

It should act in accordance with existing rules and regulations.

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Obtaining certifications from Urban Development Authority is a responsibility of the owner of the building. Conditions have been determined by the Cabinet Memorandum presented by the Prime Minister's Office.

- (c) Even though the lease period should be a maximum of 03 years as per the Financial Regulations 835 (2) (e) and 03, but it had been obtained on lease for a period of 05 years and it had agreed to increase the lease rate up to 15 per cent after three years. Also, the conditions such as to pay a lump sum of Rs. 504 million which was the lease for 2 years, and to set off in the third and fourth years had been accepted .
- Actions should be taken in a manner of receiving the maximum benefit to the Government in accordance with the Procurement Guidelines and the provisions in the Circulars .
- Actions have been taken under the Cabinet approval and the conditions of the agreement entered into .
- (d) A sum of Rs. 275,211,000 as rent and lease payments and Rs 90,000,000 as service charges had been made From April 2016 to July 2017 when the building was not in use. Similarly, there was no attention drawn on parking facilities when it came to renting the building. In addition a sum of Rs. 260,845,487 had been incurred to maintain the building as an office and to purchase equipment .
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- do-

3.3 Management Inefficiencies

The following observations are made.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
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<p>(a) National Fertilizer Secretariat</p> <p>-----</p> <p>(i) Although Quality Assurance Tests for imported fertilizer should be obtained only from the Laboratory of the Sri Lanka Standards Institution or the Laboratory of the Industrial Technology Institute, sample tests were carried out from 04 private laboratories.</p>	<p>Actions should be taken to obtain from approved institutions.</p>	<p>According to the powers vested to the Director it is possible to carry out the work in terms of Section 12 (1) (d) of the Fertilizer Regulation Act No. 68 of 1988.</p>

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| <p>(ii) Even though it was stated that a Committee should be appointed to provide fertilizer subsidy rations to each Company for the importation of fertilizer for other crops as per Cabinet Memorandum, a such Committee had not been appointed.</p> | <p>Actions should be taken in accordance with the Cabinet Memorandum.</p> | <p>The committee members have been made aware of the appointment of the Committee.
The Subsidized Fertilizer Rations have been provided only to private fertilizer companies that import chemical fertilizer directly to Sri Lanka.</p> |
| <p>(iii) The Ministry had started the computer database in the payment of subsidies and even though a sum of Rs. 800,000 had been incurred to improve it there were shortcomings occurred in paying the fertilizer subsidy. Actions had not been taken to rectify the shortcomings in this system.</p> | <p>Arrangements should be made in line with the existing system and comply with the agreements.</p> | <p>Since the University of Colombo, which had created the database, has demanded a sum of Rs. 800,000 as service charges, actions have been taken with the approval of the Secretary to the Ministry on the request of the Director.</p> |
| <p>(iv) When collecting samples of fertilizer for the activity of quality assurance of fertilizer, action was not taken to make these matters transparent by deploying the officers of the Internal Audit Unit in addition to the officers employed by the Fertilizer Secretariat.</p> | <p>The existing system should be improved.</p> | <p>Necessary measures will be made to act with this issue in future.</p> |
| <p>(v) Because there are huge financial value payments made when pay subsidies to public and private companies for the importation of fertilizer, necessary steps had to be taken to formally delegate of work and fill the post of Accountant in order to strengthen its internal governance process.</p> | <p>The existing system should be improved.</p> | <p>Necessary measures will be made to act with this issue in future.</p> |

- (b) Even though the number of officers approved for the Israeli study tour, which was organized by the World Bank's loan-assisted Agriculture Sector Modernization Project was 16, the financial manager had also been included in the number of officers up to 17. Even though a sum of Rs. 1,075,918 was incurred in August 2018, on the trip from the Project Fund the relevant official had left the Project on 30 September 2018 .
- Once the study is done, actions should be taken to obtain the service to the Project as approved.
- Approval of the then Secretary of the Ministry of Agriculture and Hon. Minister for the related study tour has been obtained and the officer has resigned from the post after one month's notice as per the conditions of the appointment letter.
- (c) **Agriculture Sector Modernization Project**
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- (i) Even though a sum Rs. 480,000 had been paid to a contract company to create a website with the details of the Project, it had not included up-to-date data that could be used by interested parties on the projects.
- Actions should be taken to update the web site.
- There has been a strong focus in monitoring this audit observation and intend to take the necessary steps to update it and use it effectively.
- (ii) Even though it had been stipulated to select an organization for the International Service Provider, for advice on establishing Agriculture Technology Demonstration Park in accordance with Section 34 of the Project Evaluation Report dated 06 June 2016, on the delay in doing so, the work of these components was carried out by locally selected consulting firms and a sum of Rs. 840,187,484 had been paid.
- Must comply with the project evaluation reports and instructions and objectives.
- The negotiations for procurement commenced on 11 June 2019, accordingly, it is intended to commence the process by August 2019 with the approval of the World Bank and the Cabinet of Ministers to comply with the Agreement.

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| <p>(iii) The officers recruited for the activities of the Project had left their posts within a short period of time and without taking action to fill those vacancies accordingly, the other officers who worked on the project had covered the duties. It had a direct impact on the overall financial and physical performance of the Project.</p> | <p>It should adhere to the circular instructions and objectives.</p> | <p>The consultants were not appointed to serve in the specialist positions at the beginning and separate roles were assigned to appointed consultants.</p> |
| <p>(iv) Even though a sum of Rs. 28,639,133 had been incurred in the year 2018 to print training manuals and workbooks prepared by consultants for farmer training and capacity development , training programmes for farmers had not been commenced 13 May 2018.</p> | <p>Actions should be taken in line with the existing system.</p> | <p>The appointments were given for Head Trainers and Farm Trainers in the year 2019 and required training was given. The Training Manuals were printed and obtained on 29 December 2018. It is planned to provide training.</p> |

4. Human Resources Management

The following observations are made.

Audit Observation	Recommendation	Comments given by the Chief Accounting Officer
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<p>(a) Even though there were 316 vacancies remained as 21 vacancies in Senior Level posts, 04 vacancies in Tertiary Level posts, 273 vacancies in the Secondary Level posts and 18 vacancies at the primary level posts in the Ministry, actions had not been taken to fill them.</p>	<p>Actions should be taken in accordance with the circular instructions</p>	<p>Appointments have been made on acting basis and contract basis for vacancies and necessary actions are being taken to fill the vacancies.</p>

- (b) Even though the post of Director of the Fertilizer Secretariat had been in vacant since 11 April 2017, actions had not been taken until 20 May 2019 to fill that position as per the recommendation of the Public Service Commission as the Appointing Authority.
- It should be compatible with the existing system.
- The promotion procedure has been prepared and submitted to the Public Service Commission for approval. Once it is approved, arrangements can be made to fill the vacancy.