

## 45 Agrarian Services Committees in the Kandy District - 2023

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### 1. Audit Opinion

1.1 The audit of the financial statements of the 45 Agrarian Services Committees in the Kandy District for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) 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 and Section 58 (1) of Agrarian Development Act, No.46 of 2000. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 The audit reports issued for 45 Agrarian Service Committees in the Kandy District include an adverse opinion for one committee, a disclaimer of opinion for 03 committees, and a qualified opinion for 41 committees. The material deficiencies that contributed to these opinions are listed below.

### 1.3 Financial Statements

#### 1.3.1 Non-compliance with accounting policies, including the Sri Lanka Public Sector Accounting Standards

| <b>Audit Observation</b>  | <b>Comment of the Management</b>  | <b>Recommendation</b>  |
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| (a) Although depreciation should have been calculated based on the purchasing cost of machinery, equipment, and buildings as per Section 30(4) of the Commissioner of Agrarian Services Circular No. 107 dated 16 October 1981, depreciation was accounted for using the diminishing balance method in 17 Agrarian Services Committees. | Action will be taken to rectify this in the preparation of accounts for the year 2024.                                      | Actions should be taken in accordance with the circular instructions.              |
| (b) There were 42 Agrarian Services Committees that did not disclose accounting policies along with the financial statements of the Agrarian Bank.  | Financial statements have been presented in accordance with the departmental circular instructions and the provided format. | Actions should be taken in accordance with the public sector accounting standards. |

### 1.3.2 Accounting Deficiencies

| <b>Audit Observation</b>  | <b>Comment of the Management</b>  | <b>Recommendation</b>                       |
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| (a) The value the Rs. 250,112 of a Kubota tractor belonging to the Delpitiya Farmers' Service Committee, and had been handed over to the Hadabima Authority in 2006, and the value of Rs. 479,000 payable to the Commissioner for the tractor disposed of by the Imbuldeniya Agrarian Services Committee in 2015 continued to be shown in the financial statements without being settled.   | It has been informed to the Deputy Commissioner requesting instructions for the removal of them from books  | Accounts should be rectified.               |
| (b) By the end of the year under review, 06 Agrarian Services Committees had not accounted for 1per cent of the retention money amounting to Rs. 421,079 received under contract, while 02 Committees had accounted for Rs. 664,758 of retention money related to the previous year as income for the year under review.  | It has been informed to the Deputy Commissioner that action will be taken to include it in the financial statements and to correct the impact on the Fund through the journal entries during the year 2024 and only the value pertains to the year will be accounted for. | The correct values should be accounted for. |
| (c) The value of 123 items of assets, including building construction units, office equipment, machinery, composting machines, and grass-cutting machines of 09 agrarian service committees, were not recognized and accounted for under property, plant, and equipment.  | Action will be taken to obtain value from the District office and account for them.   | Assets should be accounted for.             |
| (d) In the year under review, a total of Rs. 1,987,199 was paid to the Districts Deputy Commissioner of Agrarian Development for the purchase of agricultural bank account software, costing Rs. 17,131 each for 29 Agrarian Development Committees, amounting to Rs. 496,799, and for the purchase of printers, costing Rs. 62,100 each for 24 Agrarian Development Committees, amounting to Rs.1,490,400. By the end of the year under review, although these | Steps will be taken to correctly account for this in the upcoming year.   | Accounts should be rectified.               |

items had not been delivered to the Committees, the payments were recorded as an expense rather than an advance and accounted for under fixed assets.

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| (e) | Although there were audit fees amounting to Rs. 1,316,408 payable by 24 Agrarian Services Committees as of the last day of the year under review, no allocations had been made therefor under current liabilities in the financial statements.   | Actions will be taken to review the issue and make the necessary corrections and payments.  | Steps must be taken to correct the accounts and settle the outstanding audit fees.     |
| (f) | For the purchase of a scanner machine and two dot matrix printers for the Agricultural Bank, an amount of Rs. 8,486,768 was paid by 38 Agrarian Service Committees, each contributing Rs. 223,336, to the Agrarian Development Commissioner. However, by 31 December 2023, these machines had not yet been received by the committees, whereas they were accounted for as fixed assets.  | One of the devices has been received, while instructions have been requested from the district office regarding how to account for the other two devices. | Action should be taken to correct this.  |
| (g) | According to Section 2.1.1 of the Circular No. 01/2023 dated 24 April 2023 issued by the Commissioner General of Agrarian Development, 10 per cent of the net realizable profit should be allocated annually to the Agricultural Disaster Loan Coverage Account for credit risk as per the annual final account report of each Agrarian Bank (regular) project. However, 08 Agrarian Services Committees had not made such allocations during the year under review. | Measures will be taken to allocate 10 percent of the net realizable profit starting from 2024.  | Action should be taken following the instructions of the circular.                     |
| (h) | An amount of Rs. 2,975,859 in interest income from fixed deposits receivable for the year under review, had not been accounted for by 28 Agrarian Banks.   | The accounts will be corrected.   | Revenue related to the period should be accurately identified and brought to accounts. |

### 1.3.3 Unreconciled control accounts or reports

| <b>Audit Observation</b>  | <b>Comment of the Management</b>      | <b>Recommendation</b>                 |
|---|---------------------------------------|---------------------------------------|
| In reconciling the balances presented in the financial statements pertaining to 57 items of account, including income, expenditure, assets, and liabilities of 18 Agrarian Services Committees, a discrepancy of Rs. 6,562,953 was observed when compared with the relevant subsidiary records. Additionally, a discrepancy of Rs. 621,571 was noted between the closing balances of the previous year's financial statements and the opening balances of the year under review in 02 Agrarian Services Committees. | Action will be taken to correct this. | Account balances should be corrected. |

### 1.3.4 Contingent Account

| <b>Audit Observation</b>   | <b>Comment of the Management</b>                     | <b>Recommendation</b>                 |
|--|--|---------------------------------------|
| As at the last date of the year under review, a debit balance of Rs. 54,980,773 and a credit balance of Rs. 765,194, which had persisted in the financial statements over several years, had not been settled. | That the defferent will be identified and corrected. | Account balances should be corrected. |

### 1.3.5 Lack of Documentary Evidence for Audit

| <b>Audit Observation</b>   | <b>Comment of the Management</b>  | <b>Recommendation</b>   |
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| Due to the failure to submit fixed asset registers, subsidiary records, balance confirmations, documentation, and files related to 343 items of assets totaling Rs. 39,366,692 and 318 items of liabilities totaling Rs. 20,837,627 shown in the financial statements of 37 Agrarian Services Committees as at the end of the year under review, they could not be satisfactorily verified during the audit. | There are balances carried forward from previous accounting reports t, steps are being taken to update the fixed asset registers, and arrangements are being made to prepare the other balance confirmations in the future. | The relevant documents should be maintained to verify the account balances. |

#### 1.4 Non-compliance with laws, rules, regulations and management decisions, etc.

| Reference to laws, rules, regulations etc.  | Non-compliance   | Comment of the Management   | Recommendation  |
|---|--|---|---|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka   |  |   |   |
| i. Financial Regulation 880 and Paragraph 06 of the Circular of the Commissioner of Agrarian Services No. 107 dated 16th October 1981 | The executive secretaries of 29 Agrarian Services Committees, the Agrarian Bank clerks, and the agricultural research and production assistants had not provided bail money. | The officers who are required to provide bail money will take necessary actions to deposit such bail money in the future.   | Action should be taken in accordance with Financial Regulations and relevant circular instructions. |
| ii. Financial Regulation 891  | 12 agrarian services committees had not maintained an employees' register of securities.   | Action will be taken to maintain the registers of securities in the future.   | Action should be taken in accordance with financial regulations.                                    |
| (b) Public Administration Circular No. 08/2009 dated 16th April 2009 and No. 09/2009(1) dated 17th June 2009                          | 33 agrarian services committees had not utilized fingerprint machines to record the arrival and departure of the employees.  | Letters have been sent seeking instructions from the Deputy Commissioner regarding the repair of inactive fingerprint machines, and steps are being taken to ensure the record of arrival and departure through the operational fingerprint machines. | Action should be taken in accordance with circular instructions.                                    |
| (c) Agrarian Services Commissioner Circulars  |  |   |   |
| i. Paragraph 01 of Circular No. 264 dated 21st October 1986   | Although it is necessary to recover room rents within the relevant years, 11 agrarian services   | The relevant room rents for the year under review has been collected in   | Room rents should be collected in accordance with the instructions                                  |

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|     |   | committees had not taken action to collect room rents of Rs.672,480 as at the end of the year under review.   | 2024, and provided in the instructions have been sought from the Deputy Commissioner to write off the old balances.                                | in the circular.   |
| ii  | The circular No. 03/2016 dated 09 February 2016.  | Out of the 264 farmer organizations registered within the relevant jurisdiction of the 09 Agrarian Service Committees, 192 farmer organizations were not inspected by the Agricultural Research and Production Assistant, and 237 farmer organizations were not inspected by the Executive Officer. | In the future, farmer organizations will be inspected according to the inspection methodology.   | Action should be taken in accordance with circular instructions.             |
| iii | Circular No. 322 dated 27th May 1988 of the Commissioner General of Agrarian Development. | No steps had been taken as per the circular regarding the landowners' inheritance money amounting to Rs. 177,675 of 07 Agrarian Service Committees.   | Actions will be taken to credit to the Agricultural Development Fund after receiving approval.   | Actions should be taken to duly make payments.                               |
| (d) | Guideline 3.4 of the 2006 Government Procurement Guidelines.                              | 15 Agrarian Service Committees had purchased goods worth Rs. 14,766,729 without calling for bids.   | Committees' approval for emergency purchases has been obtained and, as per the instructions, actions will be taken to call for bids in the future. | Action should be taken in accordance with Government Procurement Guidelines. |

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the total surplus of 38 agricultural service committees in the year 2023 was Rs. 12,646,056, and the total deficit of 7 committees was Rs. 859,856, as compared with the corresponding surplus and deficit for the previous year amounting to Rs. 12,534,437 and Rs. 827,559, respectively. According to the financial results for the year under review, the total surplus of 45 Agricultural Banks was Rs. 19,822,601, as compared with the corresponding surplus for the previous year amounting to 32,522,278.

## 2.2 Financial Results Analysis

Among the 45 committees, the financial results of 26 committees showed an increase of Rs. 7,618,361, while the financial results of 19 committees showed a deficit of Rs. 7,541,041. The increases were mainly attributed to a decrease in financial and other expenses, an increase in land tax revenue, other income, and receipts of fees. The deficits in the financial results were mainly caused by a decrease in contractual income, rising maintenance and administrative costs of the centers, and decrease in rental income, sales income of agricultural equipment, and decreased donations to farmer organizations.

## 3. Operating Review

### 3.1 Management Inefficiencies

| <b>Audit Observation</b>  | <b>Comment of the Management</b>  | <b>Recommendation</b>   |
|---|---|---|
| (a) The 32 Agricultural Service Committees had not taken steps to acquire ownership of the lands on which they are located.   | Steps have been taken to acquire ownership of the lands, and efforts will be made to transfer ownership in the future.                    | The necessary steps should be taken to acquire the land.                        |
| (b) As per paragraph 4 (vi) of the letter of the Commissioner General of Agricultural Development No.7/5/3 /ඒ.ම.ම. dated 21 December 2022, the total amount of Rs.426,985 to be collected from agricultural research and production assistants of 3 Agrarian Services Committees, had not yet been collected.                       | Not commented.  | The necessary steps should be taken to recover the loan.                        |
| (c) Although three sales outlets at the 2 Agrarian Service Centers in Medamahanuwara and Gampola were rented, no agreement or written document had been signed for this purpose.  | Not commented.  | The lease agreements should be signed, and actions should be taken accordingly. |
| (d) Although there were stocks with a total value of Rs. 265,170, plant stock valued at Rs. 33,112, agricultural chemical stock valued at Rs.239,199, fertilizer stock valued at Rs. 91,387, and expired stock valued at Rs. 8,811, at the end of the year under review of the closing stock of 13 Agricultural Service Committees, | After the approval of the committees, the removal of stocks from the books has been referred to the District Agrarian Development Office. | Actions should be taken in accordance with the circular.                        |

no action had been taken for the proper removal of these stocks from the books as per the circular No. 2006/08 dated 08 December 2006 of the Commissioner General of Agricultural Development.

### 3.2 Operating Inefficiencies

| Audit Observation   | Comment of the Management   | Recommendation   |
|---|---|--|
| (a) Although the total area of paddy lands belonging 796 divisions of 35 Agrarian Service Centers was 28,854 acres, out of which 17,196 acres of land were not cultivated during the 2023 Yala season and 14,615 acres were not cultivated during the 2023/24 Maha season.  | Although paddy cultivation is not done in all lands, vegetables and seasonal crops have been cultivated.  | Steps should be taken to obtain optimum productivity from agricultural lands.  |
| (b) The total area of fallow paddy lands in the 31 Agrarian Service Centers was 1,581 acres by the end of 2023.   | Measures will be taken to cultivate uncultivated agricultural lands.  | Actions should be taken according to the law regarding uncultivated paddy lands.   |
| (c) As per the instructions in the letter No. 07/05/12/8.වෘ/ක.෧෨ dated 31 December 2018 of the Commissioner General of Agricultural Development, 18 Agrarian Service Committees had not settled 190 items of assets totaling Rs. 12,728,252 and 180 items of liability totaling Rs. 10,160,288, which were continuously appearing in the financial statements   | The information required to settle the balance has been referred to the District Agrarian Development Office.   | Action should be taken according to the management instructions.   |
| (d) According to the circular No. SMFI/3/D/08/08 dated 21 August 2023 from the Secretary of the Ministry of Agriculture, the names of farmers eligible for fertilizer assistance should be entered on the Agrarian.lk website along with the relevant information. Accordingly, the 11 Agrarian Service Committees had entered the details of 10,964 farmers who cultivated paddy during the 2023/24 Maha season. Out of these, 9,084 farmers received assistance | Some farmers have not received subsidies due to incorrect bank account details provided by the farmers and that the corrected bank account details have been notified to the district office. | According to the circular instructions, actions should be taken to provide the subsidy money within the stipulated time. |



funds, while 1,875 farmers who were eligible for assistance have not yet received their funds.

### 3.3 Idle or underutilized property, plant and equipment

| Audit Observation  | Comment of the Management  | Recommendation                                  |
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| A leaf shredder, a tractor, 2 mud wheels, a CCTV camera system worth Rs. 172,600, and 2 compost shredding machines worth Rs. 380,000 received by 3 committees from the Department of Agrarian Services in 1996, and a government house, a sales outlet, and 3 seedling nurseries of 5 committees remained underutilized. | It has been informed to repair the CCTV camera system and other assets will be used effectively in the future. | Actions should be taken to utilize idle assets. |

### 3.4 Losses and Irregularities

| Audit Observation  | Comment of the Management   | Recommendation                      |
|--|---|-------------------------------------|
| A sum of Rs. 1,736,509, which was due to be recovered by 5 agrarian service committees for financial irregularities between 1995 and 2020, had not been recovered by identifying the responsible parties even by 31 December of the year under review. | The information regarding the recovery of the balance has been referred to the district office. | Actions should be taken to recover. |

## 4. Agrarian Banks

| Audit Observation  | Comment of the Management  | Recommendation   |
|--|--|--|
| (a) Out of loans provided to 6,784 farmers by 44 Agrarian Services Committees, an outstanding loan balance of Rs. 188,083,364 and outstanding interest of Rs. 20,022,147 remained uncollected as of 31 December of the year under review, although the repayment periods for these loans had lapsed between 6 months and 24 years. | At present, the relevant files have been submitted to the Arbitration Board and the court for the recovery of the loan and interest, and the collection of these amounts is in progress. | Action must be taken to recover the outstanding loan balances. |

- (b) The accuracy of a total individual balance of Rs.327,931,837 in 214 deposit accounts of 36 Agrarian Services Committees could not be verified due to the non-submission of individual balance lists and discrepancies in certain submitted balance lists. Measures will be taken to update the individual balance lists in the future. Relevant schedules for the deposits should be submitted.
- (c) Despite provisions in Clause 7 of Circular No. 4/2012 dated 29 February 2012, and the amended letter No. 7/12/4/5 dated 15 July 2021, of the Commissioner General of Agrarian Development, requiring Agrarian Banks to allocate dividends from their annual profits, it was observed that 17 Agrarian Services Committees failed to make such allocations during the year under review. Measures will be taken to allocate dividends during the preparation of accounts for the year 2024. Action should be taken in accordance with the circular instructions.
- (d) According to Section 3.8.6 of Circular No. 09/2020 – 04/2012 (Amendment I) dated 24 June 2020, issued by the Commissioner General of Agrarian Development, Danayojana accounts should be opened for project loans. However, 15 Agrarian Services Committees had not opened such Danayojana accounts. In the future, measures will be taken to open a Danayojana account for every project loan recipient. Action should be taken in accordance with the circular instructions.
- (e) According to Sections 2.1.2 and 2.2.2 of Circular No. 01/2023 dated 24 April 2023, issued by the Commissioner General of Agrarian Development, it is stipulated that the relevant percentages must be allocated from loans granted to farmers as contributions to the Agrarian Disaster Coverage Account under the Agrarian Banks (Pilot) Project. However, 18 Agrarian Services Committees had not taken actions accordingly. Measures will be taken to allocate funds in the year 2024. Action should be taken in accordance with the circular instructions.

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| (f) | According to Circular No. 05/2014 dated 09 July 2014, issued by the Commissioner General of Agrarian Development, the deposit balances in "Peramaga" children's savings accounts must be transferred to general savings accounts when account holders exceed the age of 18. However, 5 Agrarian Services Committees had failed to do so.   | Measures will be taken in the future to transfer to general savings accounts. | Action should be taken in accordance with the circular instructions.   |
| (g) | According to Section 3.4.11 (i) of Circular No. 04/2012 dated 29 February 2012, issued by the Commissioner General of Agrarian Development, the funds collected in the Disaster Loan Coverage Account must be retained in a high-interest savings account in a state bank. However, 03 Agrarian Services Committees had not established a separate savings account for this purpose. | Measures will be taken to open a savings account.                             | Action should be taken in accordance with the circular instructions.   |
| (h) | The Wawinna and Ulpathagama Agrarian Banks had contingent account balances totaling Rs. 2,708,667.   | Not commented.  | The reasons for the discrepancy should be identified, and the account balance should be corrected accordingly. |
| (i) | 06 Agrarian Banks had overstated amounts totaling Rs. 753,020 for the year under review, while 12 Agrarian Banks had understated bank interest income by Rs. 2,463,756 in their accounts.  | Accounts will be corrected.   | The income related to the period should be accurately identified and brought to accounts.                      |
| (j) | The Digana Agrarian Services Committee had 03 receivable balances amounting to Rs. 1,218,487, which continued to be shown in the accounts for several years. Nevertheless, it had not been settled even by the end of the year under review.   | At present, a written notice has been given to designate a caretaker officer. | The reasons should be identified, and the balance should be settled.   |