

## 13 Agrarian Service Committees of Polonnaruwa District - 2023

### 1. Audit Opinion

The audit of the financial statements of the 13 Agrarian Service Committees in Polonnaruwa District for the year ended 31 December 2023 comprising the statements of financial position as at 31 December 2023 and the statements of financial performance, cash flow statements 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 the Agrarian Development Act, No. 46 of 2000. My comments and observations which I consider should be report to Parliament appear in this report.

In the 13 audit reports issued in relation to 13 Agrarian Service Committees in Polonnaruwa district, the opinion of 02 Committees was disclaimed and a qualified opinion had been expressed in 11 Committees, and the material deficiencies that had been caused to the qualified opinion are shown below.

#### 1.1 Financial Statements

##### 1.1.1 Non-compliance with Sri Lanka Public Sector Accounting Standards and Accounting Policies

	<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	According to the Sri Lanka Public Sector Accounting Standard No.7, 09 Agrarian Service Committees had not been disclosed the cost, useful life time and accumulated depreciation at the beginning and end of the period of each property plant and equipment class in the financial statements.	That will be corrected	Action should be taken according to Sri Lanka Public Sector Accounting Standards.
(b)	Although it was revealed in the financial statements that the buildings, machines, equipment and vehicles were depreciated and accounted on the basis of cost by 03 committees, they were depreciated and accounted on their net value.	That will be corrected	Accounting policies disclosed in the financial statements should be followed.
(c)	According to Sri Lanka Public Sector Accounting Standard No.07 by 12 committees, the acquisition of 27 items of property, plant and equipment worth Rs.11,895,312 had not been recognized in the financial statements.	That will be corrected	Sri Lanka Public Sector Accounting Standards should be followed.
(d)	In recognizing the cost of 18 items of assets received from other parties by 08 committees, considering the requirements	That Madirigiriya Agrarian Service Committee has	- do -

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| <p>of Sri Lanka Public Sector Accounting Standard No. 07, its fair value was identified on the date of acquisition and had not been stated in the financial statements.</p>  | <p>outsourced the organic fertilizer ingredient shredding machine to another party and other Agrarian Service Committees have not been able to identify the cost.</p> |   |
| <p>(e) Although according to Sri Lanka Public Sector Accounting Standard No. 9, inventory-related losses should be recognized as an expense in the period in which the losses occur, damaged, expired and technically expired stocks worth Rs.1,067,886 were not accounted for in the previous years of 04 Committees.</p> | <p>That accounting will be done in the future.</p>  | <p>- do -</p>   |
| <p>(f) Due to the fact that 02 committees had not re-reviewed the expected period of use of assets, the total cost of property, plant and equipment in active use which was Rs.171,597 had been fully depreciated by the end of the year under review.</p>   | <p>That will be done in the future.</p>   | <p>The expected period which the asset is likely to be used should be reviewed.</p> |
| <p>(g) 11 Farmers Banks did not disclose comparative information for the previous period for all the numerical information reported in the financial statements as specified by Sri Lanka Public Sector Accounting Standard No. 1.</p>   | <p>That the financial statements have been prepared in accordance with the format introduced by the Department of Agricultural Development.</p>                       | <p>Sri Lanka Public Sector Accounting Standards should be followed.</p>             |
| <p>(h) 11 Committees had not prepared and submitted the statement of the financial position and financial performance statement according to the appropriate forms presented by Sri Lanka Public Sector Accounting Standard No. 01.</p>  | <p>That the financial statements have been prepared in accordance with the format introduced by the Department of Agricultural Development.</p>                       | <p>Sri Lanka Public Sector Accounting Standards should be followed.</p>             |

### 1.1.2 Accounting Deficiencie

Audit Observations	Comments of the Management	Recommendation
(a) 03 Committees did not show the value of land and buildings belonging to Agrarian Service Committees in the financial statements.	That will be corrected	Assets must be accounted for.
(b) At the end of the year under review, the stock with a sales value of Rs.9,021,705 which was sent to the Agriculture Research and Production Assistants on a cash-for-sale basis by 08 Committees was identified as sales in the financial statements.	That is accounted as credit sales.	The recognition of recurrent from the sale of goods should be done according to the conditions described in Sri Lanka Public Sector Accounting Standards.
(c) Fixed deposit interest income of Rs.296,339 understated in the financial statements for the year under review by 05 Committees.	That will be corrected	Transactions related to the period should be fully recognized and accounted.
(d) The fixed deposit interest of Rs.475,736 related to the year under review had been overstated in the financial statements by 04 Committees.	That will be corrected	- do -
(e) The fixed deposit interest due on 31 December 2023of Rs.806,755 had been understated in the financial statements by 06 Committees.	That will be corrected	- do -
(f) The fixed deposit interest income of Rs.562,072 receivable at the beginning of the year under review had been understated in their financial statements by the 04 Agrarian Service Committees.	That will be corrected	Transactions related to the period should be fully recognized and accounted.
(g) The calculation of property, plant and equipment depreciation of Rs.213,688 had been under accounted by 02 Committees in the year under review.	That will be corrected	- do -

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| (h) | Bakamoona Agrarian Service Committee had reconciled the interest income of Rs.536,580 in the financial statements of the reviewed year in relation to 02 fixed deposits from the date of opening of those accounts to the maturity date of the reviewed year.                        | That will be corrected  | - do -  |
| (i) | The value of the tractor of Rs.1,090,085 , which was given to Navanagara Agrarian Service Committee by Bakamoona Agrarian Service Committee, which was included in its financial statements, was further stated in the financial statements of Bakamoona Agrarian Service Committee. | That will be corrected  | Adjustments and rectifications in accounts should be made after formal authorization and proper approval. |
| (j) | The aggregate value of Rs.4,174,986 cash receipts from the operational activities of the Pulastigama Agrarian Service Committee was shown under investing activities in the cash flow statement.   | That will be corrected  | Sri Lanka Public Sector Accounting Standards should be followed.  |
| (k) | Cash Receipts flows of Rs.1,084,502 and cash payment flows of Rs.1,500,000 generated from investment activities of 03 committees were shown under financing activities in the statement of cash flows.   | That will be corrected  | - do -  |
| (l) | Sevagama Agrarian Service Committee had shown Rs.650,000 spent for the acquisition of computers under operating activities which should be shown under investment activities in the cash flow statement.   | That will be corrected  | - do -  |
| (m) | Rs.6,342,508 of fertilizer usage money received during the reviewed year in relation to the previous years of 04 Committees was recognized as income of the reviewed year.   | That will be corrected  | Transactions related to the period should be formally identified and properly accounted.                  |
| (n) | 03 Committees had debited the purchase price of 06 computer devices which had been purchased at a cost of Rs.1,950,000 for the Agricultural Bank pilot project in the year under review to the accumulated fund.   | That was accounted on verbal instructions given by the District Office of Agricultural Development. | Assets of the Agricultural Service Commission should be accounted as an increase.                         |

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| (o) | The interest income of 07 farmer banks for the year under review had been understated by Rs.470,194.  | That will be corrected | Financial statements should be prepared and presented on accrual basis.                                  |
| (p) | The receivable loan interest income at the beginning of the accounting period of Rs.310,522 of Sevagama Farmers Bank Pilot Project had been over-accounted and the receivable loan interest income at the end of the period of Rs.351,245 had been under-accounted. | That will be corrected | - do -   |
| (q) | Cash flows of Rs.30,701,647 generated from investment activities of 07 Farmers Bank pilot projects and payment cash flows of Rs.5,298,472 from investment activities were also shown under operating activities.  | That will be corrected | Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |
| (r) | Net cash flows of Rs.83,485,392 from operational activities of 04 Farmers Bank pilot projects had been shown as net cash flows generated from investment activities.  | That will be corrected | - do -   |
| (s) | Cash flows receipts of Rs.2,644,989 from financial activities and payment cash flows of Rs.2,051,248 from financial activities of 03 Farmers Bank pilot projects had been also shown under operating activities.  | That will be corrected | - do -   |
| (t) | Cash flows receipts of Rs.10,297,200 from the financing activities of 02 Farmers Bank pilot projects had been shown under investing activities in the cash flow statement.  | That will be corrected | Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |
| (u) | Receipts of Rs.265,470 from investment activities to Manampitiya Farmers Bank had been shown as cash flow under financing activities.   | That will be corrected | - do -   |

### 1.1.3 Un-reconciled Control Accounts or Reports

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
There was a discrepancy of Rs.6,672,145 between the balance according to the financial statements and the balance according to the corresponding reports in relation to 06 ledger accounts of 02 Agrarian Services Committees.	That will be corrected in the future	Comparisons should be made and properly accounted.

### 1.1.4 Transactions without Authority

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Payment had been made for the 317 payment vouchers totaling Rs.30,558,267 without certification by the Certifying Officer in the year under review by the 03 Agrarian Service Committees.	That will be corrected	Financial Regulation 245(1) and 257 should be followed.

### 1.1.5 Lack of Written Evidence for Audit

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Due to the non-availability of balance confirmations, fixed assets registers, Bills of Receipts, age analysis and revenue registers for the total value of Rs.197,652,593 stated in the financial statements under 50 accounting subjects related to 12 Agrarian Service Committees, they could not be satisfactorily verified in the audit.	It will be corrected in the future.	Relevant evidence should be provided to audit for checking transactions and balances.
(b) 40 vouchers for the payment of Rs.8,333,055 mentioned in the daily payment register of Madirigiriya Agrarian Service Committee were not submitted to the audit.	That the deficiencies will be corrected.	Payment vouchers should be submitted to the audit as necessary evidence to confirm that the relevant payments have been made.

**1.2 Non-compliances with Laws, Rules, Regulations and Management Decisions etc.**

	<b>Reference to Laws, Rules and regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
<b>(a)</b>	<b>Agrarian Development Act No. 46 of 2000 edited by Agrarian Development (Edited) Act No. 46 of 2011</b>			
	(i) Section 52(1)	10 committees had not prepared an agricultural program for the area.	That the action plan of 04 committees is included and that 03 committees will work in the future.	Provisions of the act should be followed.
	(ii) Section 54(1)	The land owner farmers and land occupiers have not informed through a document the information about their agricultural land and the agricultural land activities carried out within a certain period as may be specified by the council by the 08 Committees.	That 04 Committees will work to confirm in the future and that one Committee cannot practically do it	Provisions of the act should be followed.
	(iii) Sections 54(2),(3),(4),(5)	08 Committees had not dealt with the provisions of the referred sections of the Act regarding the landowner farmers and land occupiers who did not fulfill the above responsibility.	That will be done in the future.	- do -
<b>(b)</b>	<b>Financial Regulation of the Democratic Socialist Republic of Sri Lanka</b>			
	(i) Financial Regulation 105	Actions had not been taken according to the financial Regulations regarding the preparation of vouchers containing false information in the year 2021 and the overpayment of Rs.146,000	That the written instructions have been given to the concerned officer	Financial Regulations should be followed.

	for a building repair work of the Higurakgoda Agrarian Service Committee.		
(ii) Financial Regulation 133,134(3)	Internal audit had not been conducted regarding the money and transactions of 05 Agrarian Service Committees.	That should be done by the Department of Agricultural Development.	- do -
(iii) Financial Regulation 214	12 Committees had not maintained a register of liabilities so that the liabilities could be checked regularly.	That will be corrected	Financial Regulations should be followed.
<b>(c) Circulars of the Agricultural Services Commissioner General</b>			
(i) Circular No 2006/08 dated 14 December 2006 and Financial Regulations 109 and 756	03 Committees had not been dealt with circulars and financial regulations regarding the release of expired fertilizers and agrochemicals worth Rs.714,795.	That the Assistant Commissioner of Agriculture has been informed.	Circulars and Financial Regulations should be followed.
(ii) Agricultural Services Commissioner's circular No. 10/2014 dated 31 December 2014	<ul style="list-style-type: none"> <li>Although it is stated that as per the instructions of the circular, the stock books should be checked by the Agricultural Development Officer and the center clerks and a physical stock should be checked at least once in a month, 04 Agrarian Service Committees had not done so.</li> </ul>	That will be done in the future.	Circular instructions should be followed.
	<ul style="list-style-type: none"> <li>Madirigiriya Agricultural Service Committee had not arranged to formally assign duties and issue an appropriate letter of appointment for two</li> </ul>	That bail deposits have been received.	- do -



employees in accordance with the circular provisions who were hired to work on a casual basis and handle the cash and stock of the store.

**2 Financial Review**

**2.1 Financial results**

According to the presented financial statements, the total of the 13 Agricultural Service Committees in the year 2023 was a surplus of Rs.36,636,062, , Correspondingly that, the surplus of 12 committees and the deficit of one council were Rs.17,660,759 and Rs.25,945 respectively in the previous year. According to the financial results of the reviewed year, the total surplus of the 13 agricultural banks was Rs.17,834,524, correspondingly that, the surplus of the previous year was Rs.12,572,499.

**2.2 Analytical Review**

The increase in urea fertilizer sales income and fixed deposit interest income, reimbursement of fertilizer expenses were the main reasons for the surplus in the 13 Committees.

**3. Operating Review**

**3.1 Management Inefficiencies**

Audit Observations	Comments of the Management	Recommendation
(a) According to the instructions of the Public Administration Circular No. 09/2009 dated April 16, 2009 of the Secretary of the Ministry of Public Administration and Home Affairs, the arrival and departure times of the officers of 06 Committees had not been recorded by fingerprinting machines.	That the fingerprint machine is inactive.	Circular instructions should be followed.
(b) Although an air rifle worth Rs.24,323 was taken away from Ambagaswewa Agrarian Service Committee by the previous regional officer, but arrangements had not been made to retrieve the relevant equipment.	That the concerned officer has been informed.	Arrangements should be made to re-take the relevant equipment.
(c) The tax amount of Rs.272,345 collected by the bank on the fixed deposit interest income of 05 Committees in the year under review had not been recovered in accordance with the	That the concerned parties have been informed.	Circular provisions should be followed.

provisions of Section 70 of the Agricultural Development Act No. 46 of 2000 as amended by the Agricultural Development (Amendment) Act No. 46 of 2011.

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| (d) | 24 receipt books that had been issued to 06 officers of Bakamoona Agrarian Service Committee since 2012, actions had not been taken to take back to the committee.  | That the concerned officer has been informed.  | Circular No.1/2011 dated 01 February 2011 of the Agricultural Development Department should be followed. |
| (e) | Daily stock issue documents prepared manually by the sales assistant in relation to the period from January to April 2023 of Madirigiriya Agrarian Service Committee, bank receipts and related receipts related to the banked money in relation to the period from 01 January to 01 June 2023, during that period, the officer who served as the committee clerk of the Agrarian Service Committee had not been checked whether a possible offense had been committed by a government officer as indicated in the second schedule of the Establishment Code regarding the fact that he was missing while in custody. | That the official has been asked for excuses and referred to the Assistant Commissioner of Agriculture | Provisions of the Establishment Code should be followed.   |
| (f) | The lands of 04 Agrarian Service Committees had not been taken over to the Commissioner General of Agricultural Services.   | That further work will be done.  | Arrangements should be made to take over the land.   |
| (g) | In the implementation of the Government's expedited program for procurement of crops implemented for the 2021 yala crop season by Girithale Agrarian Service Committee, action had not been taken according to the provisions of Chapter XLVIII, Paragraph 13 of the Establishment Code regarding the submission of information that Rs.715,000 has been illegally obtained from the farmers by two assistant officers of the Agricultural Research Production.   | Comments not presented.  | Provisions of the Establishment Code should be followed.   |
| (h) | Due to misuse of fertilizer stocks, the committee clerks who were working in 02   | That the arrangement will  | Actions should be taken to recover.  |

	committees had not taken sufficient steps to recover the amount of Rs.148,099 due for that.	be made to recover.	
(i)	Agreements regarding loans of Rs.768,964 issued to 78 farmers during the period from 2001 to 2011 in 03 Farmers Bank pilot projects had been missing.	That further work will be done on the instructions of the Assistant Commissioner of Agricultural Development.	Action should be taken according to the 3.4.7 (II) of Circular No. 4/2012 dated 29 February 2012 of the Commissioner General of Agricultural Development.
(j)	The audit revealed that 645 debtors have been investigated to recover 2277 outstanding loan balances amounting to Rs.90,512,754 by 13 agricultural service centers, 446 debtors have been referred to the tribunal, and 41 debtors have initiated legal proceedings.	That the arrangement will be made to recover.	Arrangements should be made for recovery according to the Circular No. 4/2012 dated 29 February 2012 of the Commissioner General of Agricultural Development.
(k)	The number of inactive small groups in 07 agricultural banks was 850.	That the action will be taken to keep active future.	Small groups should be actively maintained.
(l)	The ledgers had not been maintained in manual method as suitable formats for the total value of Rs.13,572,111 shares, normal deposits money, children's savings farmers' organizations and small group deposits money in the Welikanda Farmers' Bank pilot project,	That will be done in the future.	Ledgers should be maintained up to date.

### 3.2 Transactions of Contentious Nature

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) From the total sales revenue collected by Madirigiriya Agricultural Service Committee from January to August 2023, the unbanked amount was Rs.794,152. Information was presented that the expenses related to the committee and the marketing department were incurred by the marketing partner and no evidence was presented to the audit that could confirm the correctness of the receipts or payments obtained from	That payment vouchers have been prepared and submitted.	A formal investigation should be carried out and legal action should be taken if any misuse has occurred and a program should be implemented to strengthen internal

the client that the vouchers or cash approved by the authorized officers for Rs.645,646 so incurred and No information was submitted to the audit regarding the remaining amount of Rs.148,506.

control regarding financial transactions.

(b) While Finance Regulation 168 emphasizes that any government official should issue a receipt immediately after receiving money on behalf of the government, Medirigiriya Agrarian Service Committee's outlet had wrongly prepared receipts worth Rs.16,514,631 after 10 months of selling without issuing receipts to the farmers between 28 May 2023 and 07 July 2023.

That the receipts - do - and daily documents are prepared.

(c) After submitting the bank receipt obtained for the money banked at the end of the day by the sales associate of Madirigiriya Agrarian Service Committee to the center clerk, For that, the supervisor should issue receipts and account in a daily cash receipts register and ensure that this is done. But in 08 instances, Rs.17,685,707 banked were recorded in the daily receipts registers without receipts.

That will be - do - corrected

(d) In order to verify the correctness of the payments of Rs.345,087,635 made by Madirigiri Agrarian Services Committee, the receipts obtained from the client that the gross amount mentioned in the voucher and the receipts for the payments for storage supplies have been included in the relevant inventory or stock books have not been submitted to the audit.

That will be A formal investigation corrected. should be carried out and legal action should be taken if any misuse has occurred and a program should be implemented to strengthen internal control regarding financial transactions.

### 3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observations	Comments of the Management	Recommendation
53 items of assets of 09 Agrarian Service Committees remained idle, of which the value of 39 items was stated as Rs.4,154,944 in the financial statements.	It has been informed that suitable arrangements will be made.	Resources should be utilized efficiently.

### 3.4 Procurement Management

Audit Observations	Comments of the Management	Recommendation
(a) In the year 2023, 02 Agricultural Service Committees had made purchases worth Rs.411,725 without following the procedures to be followed by the procurement authorities in the procurement process.	That will be corrected	Provisions of the Procurement Guideline should be followed.
(b) The Bakamoona Agrarian Services Committee had not appointed Procurement Committees and Technical Evaluation Committees as described in Section 2.4 of the Procurement Guidelines Code.	That will be corrected	Provisions of the Procurement Guideline should be followed.