

**Report of the Auditor General on Head 281 – Department of Agrarian Development -  
Year 2016**

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The audit of the Appropriation Account and the Reconciliation Statements including the financial records, books, registers and other records of the Head 281 - Department of Agrarian Development for the year ended 31 December 2016 was carried out in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Management Audit Report for the year under review was issued to the Commissioner General of the Department on 31 July 2017. The audit observations, comments and findings on the accounts and reconciliation statements were based on a review of the Accounts and Reconciliation Statements presented to audit and tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

**1.2 Responsibility of the Chief Accounting Officer and the Accounting Officer for the  
Accounts and the Reconciliation Statements**

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The Chief Accounting Officer and the Accounting Officer are responsible for the maintenance, preparation and fair presentation of the Appropriation Account and the Reconciliation Statements in accordance with the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other Statutory Provisions and the Public Finance and Administrative Regulations. The responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts and Reconciliation Statements that are free from material misstatements, whether due to fraud or error.

**2. Accounts**

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**2.1 Appropriation Account**

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**(a) Total Provision and Expenditure**

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The total net provision made for the Department amounted to Rs.8,583.40 million and out of that Rs.7, 590.32 million had been utilized by the end of the year under review. Accordingly, the savings out of the total net provision of the Department amounted to Rs.993.08 million or 11.57 per cent. Details are given below.

Expenditure	As at 31 December 2016			Savings as a Percentage of Net Provisions
	Net Provision	Utilization	Savings	
	Rs. Millions	Rs. Millions	Rs. Millions	
Recurrent	6,920.40	6,676.10	244.30	3.53
Capital	1,663.00	914.22	748.78	45.03
<b>Total</b>	<b>8,583.40</b>	<b>7,590.32</b>	<b>993.08</b>	<b>11.57</b>

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

Provisions totalling Rs.2,467.82 million had been made available by another 02 Ministries and 02 Departments for various activities of the Department. Out of that, provisions amounting to Rs.1, 073.22 million had been utilized by the end of the year under review. Accordingly, the savings out of the provisions made, amounted to Rs.1, 403.60 million and represented 56.66 per cent.

**2.2 Advances to Public Officers Account**

**Limits Authorized by Parliament**

Limits authorized by Parliament for the Advances to Public Officers Account, Item No.28101 of the Department and the actual amounts are given below.

Expenditure		Receipts		Debit Balance	
Maximum Limit	Actual	Minimum Limit	Actual	Maximum Limit	Actual
Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions	Rs. Millions
250.00	206.56	192.00	226.22	600.00	357.34

**2.3 Imprest Account**

Imprest balance as at 31 December 2016 amounted to Rs.1.77 million.

**2.4 General Deposit Accounts**

The balances of 07 Deposit Accounts under the Department as at 31 December 2016 totalled Rs.418.22 million. Details appear below.

<b>Deposit Account Number</b> -----	<b>Balance as at 31 December 2016</b> -----
	Rs. Millions
6000/0000/00/0006/0051/000	168.06
6000/0000/00/0002/0010/000	10.78
6000/0000/00/0001/0010/000	0.01
6000/0000/00/0013/0024/000	1.31
6000/0000/00/0018/0011/000	6.89
6000/0000/00/0016/0009/000	139.41
6000/0000/00/0013/0032/000	91.76
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<b>Total</b>	<b>418.22</b>
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## 2.5 Audit Observation

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The Appropriation Account and the Reconciliation Statements of the Department of Agrarian Development for the year ended 31 December 2016 have been prepared satisfactorily subject to the Audit Observations, appearing in the Management Audit Report referred to in Paragraph 1.1 above. The material and significant Audit Observations out of the Audit Observations included in the Management Audit Report appear in paragraph 3.

## 3. Material and Significant Audit Observations

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### 3.1 Presentation of Accounts

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Even though, the Department should have presented the accounts of Agrarian Service Centers to audit by 28 February 2017. Accordingly, out of total 560 Agrarian Service Centers, 77 Agrarian Service Centers had not been presented Accounts for the year 2016 on the specified date. Department had not been maintained the progress reports to reflect non submission of accounts in previous years and the progress of the submission of accounts. Number of Accounts not presented for audit as per years are given below.

<u>year</u>	<u>Number of Accounts not presented</u>
2006	36
2007	34
2008	31
2009	25
2010	12
2011	10
2012	13
2013	18
2014	26
2015	33
2016	<u>77</u>
Total	<u>315</u>

### 3.2 Non-maintenance of Registers and Books

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It was observed during the course of audit test checks that the Department had not maintained the following Registers in the updated manner.

<u>Type of Register</u>	<u>Relevant Regulation</u>
(i) Register of Fixed Assets	Treasury Circular No.842 of 19 December 1978
(ii) Register of Fixed Assets on Computers, Accessories and Software	Treasury Circular No. IAI/2002/02 of 28 November 2002
(iii) Register of Counterfoil books	Financial Regulations 341
(iv) Inventory of Electrical Fittings	Financial Regulations 454(2)
(v) Security Register	Financial Regulations 891(1)
(vi) Register of listing of Motor Vehicles	Financial Regulations 1647(e)

### 3.3 General Deposit Accounts

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The following observations are made.

- (a) Even though it was revealed difference between the balances of the Deposit Accounts maintained under the department and the balances according to the treasury printouts, those difference was not reconcile in terms of Financial Regulations 427 by the end of the year under review.
- (b) Actions had not been taken in terms of Financial Regulations 571, in respect of 03 deposit amounted to Rs. 167,213 over a period exceeding 02 years and deposits amounted to Rs. 1,675,994 in Anuradhapura Agrarian Development District office.

### **3.4 Advances to Public Officers Account**

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The following deficiencies were observed during the course of audit test checks carried out in respect of the Reconciliation Statement as at 31 December 2016 relating to the Advances to Public Officers Account Item No. 28101.

- (a) According to the Reconciliation Statement presented to Audit, the balances that remained outstanding as at that date totalled Rs. 23,766,309. Even though Rs. 18,664,628 outstanding balances remained over periods ranging from 01 year to 05 years, balances of Rs. 486,994 recoverable from officers who had been absorbed as provincial council officers had been existing over periods exceeding 07 years department had been failed to recover by the end of the year under review.
- (b) A difference of Rs.1,929,786 was observed in comparing the total of the Individual Balances Classification Summary with the balance of the Control Account. The Department had failed to inquire on the reasons for that difference and to rectify that even by 31 August 2017.
- (c) The loan balance of Rs.2,968,933 recoverable from officers who had been transferred out had been over period exceeding 07 years that had been failed to take actions in terms of National Budget circular No 118 of 11 October 2004 and recover from the institutions which to officers transferred by the department.

### **3.5 Good Governance and Accountability**

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#### **3.5.1 Annual Action Plan**

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Provisions comprising of Rs. 2,000 million for rehabilitation of small tanks and canals and Rs. 1,320 million for development of minor irrigation and abandoned paddy lands had been included in the Action plan prepared for the year under review, the tanks and the canals to be renovated had not been identified by the department.

#### **3.5.2 Annual Procurement Plan**

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The following observations are made.

- (a) Actions should have been taken to purchase entire supplies including necessary materials, equipment for New Rice Festival held annually by including to the procurement plan of the year by following the procurement procedures. However, procurements amounting to Rs.2, 000,000 had been made without following the provisions of the Government Procurement Guidelines by Anuradhapura Agrarian Development District office in the year under review.
- (b) Even though the retention money should be re-paid to the contractor after expiry of the defect liability period in terms of the procurements Guide lines paragraph No 5.4.6. The retention money of Rs.547, 071 during the period of year 2014 to year 2016 for 14 contracts had not been settled by the end of the year under review.

- (c) Contracts on developing Padaviya Jayawewa Agro-road by laying gravels in Anuradhapura district and another 10 projects in Kandy District amounted to Rs.970, 817 and Rs.8, 857,465 respectively. But contrary to the section 17 of the contract agreement subcontracts had been awarded.

### 3.5.3 Internal Audit

According to the Audit plan it was planned to conduct 13 audit programmes on establishment, procurement, construction and repairs Out of that only one programme had been conducted during the year under review. Accordingly 144 and 72 audit programmes planned respectively for Agrarian service centers and Agrarian bank pilot projects, out of that 77 and 34 programme had been conducted respectively and 24 special inspections had been held.

### 3.5.4 Annual Performance Report

Even though the Department should table the performance Report in Parliament within 150 days after close of the financial year in terms of Public Finance circular no.402 of 12 September 2002, Reports of year 2015 and year 2016 had not been tabled in parliament even by 18 July 2017.

### 3.6 Assets Management

According to the audit test checks the details of the Idle and Underutilized Assets of the department are given below.

#### (a) Idle and Underutilized Assets

It was observed during the course of audit test checks of the assets of the Department.

- (i) Details of Idle and Underutilized Assets of Agrarian service centers are given below.

Agrarian service center	Type of Asset	Quantity	Value	Period of Underutilized
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			Rs.	
Dambagalla	Kubota Tractor & Trailer	01	-	17 years
Katharagama Sevanagala and	Seeds and Agri product shop	03	-	03 years
Buttala	Sales centers	02	5,682,000	03 years
Malabe	Primover machine	01	-	02 years

- (ii) Action had not been taken to disposal of 03 non-operational tractors amounted to Rs.2,311,224 and a trailer belonging to Buttala agrarian service center.

- (iii) Even though 320 four wheel tractors, 72 two wheel tractors , 136 trailers and relevant equipment sets of the 19 District offices had been idle over a period exceeding 03 years.
- (iv) Fifty Dozers which was given for 05 District offices, out of that 14 non-operational as at 31 December 2016 while 07 machines had been idle during the year.
- (v) A number of 155 Government quarters belong to Department, out of that 54 quarters had to be maintained and 44 quarters were idle.

**(b) Conduct of Annual Boards of Survey**

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The following observations are made.

- (i) In term of the Public Finance Circular No. 05/2016 of 31 March 2016, the Board of Survey reports for the year 2016 relevant to 07 district offices had not been submitted to audit even by 14 July 2017. Relevant code Numbers of 80 assets had not been indicated in terms of the provisions of the State Accounts Circular No.174 of 14 October 2004.
- (ii) A Board of Survey Report in respect of bulldozers belonging to the Department had not been presented for the year under review.

**(c) Release of Assets to other parties**

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Three vehicles had been released by the Department to other institutions.

**(d) use of assets not vested properly**

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Actions had not been taken to acquired formally on 12 vehicles which were given from other department and institutions. Even though the jeep had been given by World Food Project to the department that vehicle had not been registered and parked without use.

**3.7 Non- compliances**

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**Non-compliance with Laws, Rules and Regulations**

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

**Reference to Laws, Rules and Regulations**

**Non-compliance**

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**(a) statutory provisions**

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**Agrarian Development Act, No. 46 of 2000.**

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| (I) Section 51(1)       | Agrarian Development council and the office of that council had not been established.                                       |
| (II) Section 53 (1)     | Test checks of the Agrarian Service Centres observed that Agricultural lands had not been amended and revised .             |
| (III) Section 81(2)     | Regulations had not been made for supervision and administration of irrigation works to be under the farmers' organization. |
| (IV) Section 56(3)& (4) | Action had not been taken in respect of persons who had been defaulted in the payment of the acreage tax.                   |

**(b)Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

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|---|---|
| (i) Public finance circular No 03/2015 of 14 July 2015 amended by Financial Regulations 371 | Even though the maximum Ad-hoc Sub Imprest that could be provided to a Staff Officer being a sum of Rs.100,000,Sub-Imprests ranging from a sum of Rs.200,000 to a sum of Rs.1,000,000 had been issued in 04 instances exceeding that limit.<br>Even though the obtained Ad-hoc Sub Imprest should be settled within 10 days after completing the relevant purpose in terms of the Financial Regulation 371 (5), a delay ranging from 25 days to 117 days had been made to settle the expenses amounting to a total sum of Rs.1,664,064 of the Ad-hoc Sub Imprest issued by the Department. A delay ranging from 61 days |
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(ii) Financial Regulations 396(d)

to 115 days had been made to settle money saved by not spending, of those Imprests. Actions in term of financial Regulations had not been taken expired over 06 months as at 31 December 2016 valued at Rs. 1,297,701 issued but not presented for payment cheques in 17 Bank Accounts of District offices and Bank Account of Head office.

(iii) Financial Regulations 756(3)

Action in terms of Financial Regulations had not been taken in respect of unusable/ outdated stocks of fertilizer, agro-chemicals, seeds and agro-equipments existing over a period exceeding 5 years in Agrarian Service centers.

**(c) Commissioner General of agrarian development Circulars**

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(i) Circular No.04/2012 (Agrarian Banks) of 29 February 2012 of the commissioner General of Agrarian Development.

- Paragraph 3.4.2

Even though the maximum period for setting the agricultural loans had been 6 months, out of the loans granted from the year 1998 to year 2016, a sum of Rs.220,356,822 had been outstanding. Out of that, a sum of Rs.98,707,370 had been outstanding over periods exceeding 05 years.

- Paragraph 4.4.2

Even though the capital funds granted to the Agrarian banks should be refunded within 05 years, the non-refunded outstanding capital funds by 236 Agrarian Banks as at 31 December 2016 amounted to Rs.253, 404,346.

(ii) Circular No.01/2016 of 07 January 2016.

Due to the over estimation of provisions for 27 minor irrigation rehabilitation projects which was carried out in Kandy District during the year under review, the savings out of the provisions made existing the range between 34 per cent to 86 per cent.

According to the criteria priority had not been placed in terms of the circulars.

Even though identification of projects as specified the time frame, preparation of estimates, commencing and closing of projects and follow up activities of projects should have to be done, it had not been done.

(iii) No.7/13/L/1(v) of 29 November 2016 Letter , paragraph 02.

Quality control report had not been taken from Quality control unit in Malabe for concrete works and irrigation works exceeding 35 meters when settling the final payments of minor irrigation works.

**(d) government procurement guideline**

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Procurement Guidelines 2.4.1

Computers valued at Rs.486,276 purchase for Dambagalla Agrarian Service Centre in 5 instances without appointing the technical evaluation committee and its approval.

### **3.8 Implementation of Projects under Domestic Financing**

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

#### **(a) Projects abandoned without commencing**

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The following observations are made.

(i) Provisions totalling Rs. 4,042,000 had been made for 04 projects for restoration of minor irrigations in Kegalla District during the year under review, by utilizing those provisions any project had not been commenced even by 14 February 2017. Approved 15 projects totalling Rs.122.54 million in Anuradhapura District had been abandoned, without commencing.

(ii) Actions had not been taken to complete 6 projects in Anuradhapura District an estimated value of Rs.11.70 million under the Programme of small tanks and canals restoration.

**(b) Projects not completed on due date**

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Agreements had been made for restoration of Kuruwita Edandawala dam and Kollonna Mahawela dam in Rathnapura District for Rs.688,179 and Rs.846,062 respectively, even though in terms of agreements restoration should have to be completed during the year under review, restoration had not been completed by the end of the year under review, therefore 421 beneficiaries had lost their benefits.

**(c) Non progress works**

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The following observations are made.

- (i) According to the agreement of the restoration of Maligathanna tank in Anuradhapura District the estimated cost was Rs.4,331,025. During the course of the physical verification 15 farmer families who lived around the Maligathanna tank the paddy lands which can be cultivate were 15 acres, where as any cultivation had not been done even by 2017 April.
- (ii) A sum of Rs.3,903,520 had been spent for 5 minor irrigation restoration projects in Kandy District. The canals had not been used even by June 2017. The paddy lands which were expected to be cultivated from the project had not been cultivated.
- (iii) Due to the improper restoration of minor irrigations which was carried out in years 2010,2013,2015 and 2016 in Matale and Kandy districts, the expected benefits from the canals had not been obtained.

**(d) Impact On Environment by the projects**

In renovating the Oruwala landa tank Environmental evaluation Report in respect of environmental and Biological damage regarding the removal of mountain near the tank and the environmental damage that occurred around the Hooniyangala tank, had not been obtained.

**3.9 Performance**

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Observations on the progress of the Department according to the Annual Budget Estimate and the Action Plan for the year 2016 are given below.

**(a) Activities Contrary to Main Activities**

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A sum of Rs. 15,041,113 had been spent for agro gardens project in Ratnapura District under the programme of Encouragement of Manufacturing and Usage of Organic Fertilizer implemented in year 2015. It was observed the provisions that allocated for this programme had been spent for other activities, the land of the agrarian service center had not been properly prepared as planned, and crops had not been chosen according to the regional climate and lack of labourers to maintain the lands.

**(b) Key Functions not Executed Adequately**

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

- (i) It had been targeted to obtain 532 test reports to improve the productivity through proper supervision of Agrarian Service Centers. Only 435 test reports had been furnished in the year under review.
- (ii) Buttala and Kataragama Agrarian service centers had been spent Rs.335,738 and Rs.78,400 respectively on other activities without implementing activities introduced by the programme to develop agrarian service centers as mini agro gardens.

**(C) Planning**

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Instances of Actions not taken in accordance with the Annual Action Plan and the following observations are made in this regard.

- (i) Even though it had been planned to construct 239 anicuts and 457 irrigation canals under the programme of minor irrigation and development of abandoned lands, Only 98 anicuts and 243 irrigation canals had been constructed during the year under review. It was planned to cultivate fallowed paddy lands of 30,000 in extent, only 5950 acres had been cultivated.
- (ii) A provision of Rs.50 million had been provided under the programme of Crops Diversification in the year under review, The progress of the project expected to be carried out was as follows.

<u>Expected Activities</u>	<u>No. of planned projects</u>	<u>No. of completed projects</u>	<u>Projects unfulfilled</u>
Flood prone /salt exclusion bund development of drainage system	41	18	23
Sojan system	14	9	5
Micro irrigation system	143	67	76

### 3.10 Deficiencies in the Operation of Bank Accounts

#### Balances for Adjustment

Information revealed at an analysis of the adjustments shown in the Bank Reconciliation Statements prepared by the Department of Agrarian Development for May 2017 is given below.

Particulars of Adjustments	Age Analysis			Total
	Over 06 Months less than 01 year	Over 01 Year less than 03 years	Over 03 Years	
	Rs.	Rs.	Rs.	Rs.
(i) Cheques issued but not presented to bank for payment	769,623	474,542	53,534	1,297,699
(ii) Unidentified Debits	-	308,579	4,200	312,779
(iii) Unidentified Credits	20,293	374,572	3,198	398,063

### 3.11 Transactions of Contentious Nature

The following observations are made.

- (a) Provisions of Rs.3, 500,000 had been made in the year 2014 under the programme of Cultivation of Fallowed Paddy Lands. This provision had been released to the Department of Irrigation for the reconstruction of Korale Ela belonging to the Department of Irrigation, located in the Bandaragama Electoral Division and those reconstructions had not been completed even by 20 July 2017.
- (b) Even though government had stopped the distribution of subsidy fertilizer, Priority had been given to construct 19 fertilizer stores in 14 Districts spending of Rs. 44, 977,339 by the department in the year under review.
- (c) Agro-roads that had to be developed by the Provincial Councils, without the approval of the provincial council spending of Rs. 988,397 the Cunchuttuwa Ralapanawa agro road in Anuradhapura District had been restoration.

- (d) A sum of Rs.50, 000,000 had been provided for Encouragement of Manufacturing and Usage of Organic Fertilizer under the Sarah Lanka loan Scheme for 21 districts, Rs 32,800,000 loans had been given for farmers in 15 districts. Those loans should have to be recovered monthly after six months the date on which the loan was given, only Rs. 199,213 had been recovered by 08 August 2017,It was 0.6 per cent out of the loan.

### **3.12 Uneconomic Transactions**

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

- (a) Construction of the Rambukpotha Agrarian Service Centre Building had been commenced at a cost of Rs.18, 827,083 in the year 2009. That building had sunken due to improper implementation of recommendations included in the Survey Report submitted by the National Building Research Organization in respect of the movability of the land where the building is located. Those constructions had been ceased in the year 2014 and future action had not been taken thereon even by the end of the year under review.
- (b) The Agrarian Development District Office of Rathnapura is maintained in a building obtained on rent basis and building rent amounting to Rs.960,000 had to be paid due to defaulting the contract of constructing a building belonging to that office and handing over on due date.
- (c) Although there should be 10 minimum beneficiary families according to the criterion of priority under the Irrigation Industry of the restoration of Minor Irrigation Projects, a sum of Rs.6, 301,706 had been spent on 11 projects with less than 10 beneficiary families in Kandy District.

### **3.13 Transactions of Financial irregularities**

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A fixed deposit of Rs.450,000 deposited at Kekirawa Rural Development bank , had been credited to personal account by the regional officer in August 2011 and even though the service of the relevant officer had been interdicted, that amount had not been recovered even by the end of the year under review.

### **3.14 Losses and Damage**

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

- (a) A register of losses and damages had not been maintained in Maradankadawala Agrarian service centre at Anuradhapura while a loss of Rs.1, 111,970 had been identified.
- (b) A vehicle of the department that met with an accident on 16 July 2013, actions had been not taken in terms of financial regulations 103, 104 and 109.

### 3.15 Management Weaknesses

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

- (a) Twenty Six Preliminary investigations that remained over a period exceeding 05 years had not been completed by the end of the year under review
- (b) Preliminary Investigations and Financial Regulations 104(b) tests commenced in year 2008 for 09 Agricultural research and production Assistants on fertilizer fraud at the Balangoda Ratmalawinna Agrarian service centre had been completed on 27 July 2016. But stock deficit amounting to Rs.1, 667,250 had not been recovered from relevant officers by the date of audit 12 July 2017.
- (c) According to the investigation in terms of financial Regulations 104(1)(b) misuse of money in Digana Agrarian Bank regarding four officers amounting of Rs.1,077,451 actions had not been taken by the end of the year under review.
- (d) Actions had not been taken to recover a sum of Rs.517,200 from 07 officers according to the formal disciplinary inquires.
- (e) Out of temporary loan of Rs.80,790,000 obtained from Farmer Trust Fund in year 2015 to lend loans to 5386 farmers who grow Maize Rs.36, 280,143 had not been settled even by 08 August 2017.
- (f) Out of the Rs.91,654,083 which was given to farmers from Recycling Fund Rs. 9,962,027 had not been recovered by 31 December 2016.
- (g) Due to the financial irregularities of 02 officers at Anuradhapura Agrarian service centre caused a financial deficit and a stock deficit amounting to Rs.364,111 existing over a period exceeding 07 years had not been recovered by the end of the year under review.
- (h) When granting the written permission in respect of the utilization of paddy lands for any other purpose specific legal orders had not been used.

### 3.16 Human Resources Management

#### (a) Approved Cadre and Actual Cadre

The position of the cadre as at 31 December 2016 had been as follows.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
(i) Senior Level	123	74	49
(ii) Tertiary Level	645	485	160
(iii) Secondary Level	16,066	13,175	2,891
(iv) Primary Level	1,543	585	958
Total	<b>18,377</b>	<b>14,319</b>	<b>4,058</b>

In addition 111 graduate trainees were recruited.

#### (b) Release of Human Resources to other Parties

It was observed that 08 Agricultural Research and Production Assistants had been released by the Department to other parties in the year under review.