

Head 281 – Agrarian Development Department

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Agrarian Development Department for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Agrarian Development Department was issued to the Accounting Officer on 05 July 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 02 July 2021 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. The report of the Auditor General in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 10 of the National Audit Act, No.19 of 2018 will be tabled in Parliament in due course.

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 financial position of the Agrarian Development Department as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements is further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of the Accounting Officer for the Financial Statements

The Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Department and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

1.4 Auditor's Responsibilities for the Audit of the 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 summary 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 and its materiality depends on the influence on economic decisions taken by users on the basis of these financial statements.

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

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer regarding, among other matters significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Requirements

I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,

(b) The recommendations made by me in the previous year regarding the observations mentioned in paragraphs 1.6.2 (a), (b) of this report had not been implemented during the year under review.

1.6 Comments on Financial Statement

1.6.1 Statement of Financial Performance

(a) Deposit Receipts

Audit Observation

**Comments of the Recommendation
Accounting Officer**

According to department books and treasury books, a difference of Rs.652,148 was observed in deposit account receipts. Although the recommendations made by the committee appointed to look into the matter were received after the preparation of the 2019 financial statements, the previous year's summary report stated that the relevant adjustments would be made to the financial statements for the year 2020, and the necessary adjustments were not made in the 2020 financial statements.

Not answered

General deposit balances should be compared with departmental books and treasury books.

(b) Other Receipts

Audit Observation

**Comments of the Accounting Recommendation
Officer**

The amount of Rs. 2,151,773 obtained from the leasing of machinery and auction of goods by 03 District Offices should have been credited to the account as other receipts in the year under review but had not been done.

I kindly inform you that after identifying the information relevant to this value, it will be properly credited to the government revenue in the future.

All receipts for the year must be accurately included in the financial statements.

1.6.2 Statement of Financial Position

Property, Plant and Equipment

The following observations are made on accounting for Property, Plant and Equipment

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) It was observed that the lands of 520 Agrarian Service Centers, 05 Mechanical Yards and the Head Office under the Department were not included in the list of non-financial assets.	Not answered.	All lands belonging to the department should be accounted for.
(b) It was observed that the value of the buildings of 408 Agrarian Service Centers, 03 Mechanical Yards and 03 Head Office Buildings owned by the Department had not been assessed and not mentioned under non-financial assets.	Copies of the building plan of the head office and 9 centers have been submitted to the Valuation Department and valuation values have been received so far and I would like to inform you that other buildings will be assessed and included in the CIGAS program in the future.	All buildings belonging to the department should be accounted for.
(c) Water management equipment purchased at a cost of Rs.26,969,617 in the previous year had not been included in the statement of non-financial assets.	I would like to inform you that this equipment will be included in the fixed assets list during the year.	Non-financial assets must be properly accounted for.
(d) It was observed that the building constructed in the Kalankuttiya Agrarian Services Center in Anuradhapura during the year under review at a cost of Rs.9,200,516 was not shown under the buildings and constructions in the Statement of Financial Position.	I would like to inform you that the necessary steps will be taken to include it in the Fixed Assets register as opening balance from this year.	All construction should include in the statement of non-financial asset.

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| (e) | 3,000 water meters, a scanner, 20 rain gauges, 98 high-tech measuring instruments, 90 meters, a water quality measuring device and a software system, a security camera system, 04 computer monitors and a photocopy machine purchased at a cost of Rs.74,658,092 during the year under review was not included in the statement of non-financial assets in the financial statements. | I would like to inform you that necessary steps will be taken to include the value of the equipment as the opening balance for this year, through CIGAS program. | Non-financial assets must be properly accounted for. |
| (f) | The statement of non-financial assets did not include the value of 519 fertilizer stores, 06 circuit bungalows, 152 official quarters and 20 canteens owned by the department, as stated in the Annual "Resource Profile" published by the Department. | I would like to inform you that it will be included in the fixed assets register as the opening balance of the year. | All buildings belonging to the department should be accounted for |
| (g) | Furniture purchased for the Mihintale Circuit Bungalow and office equipment purchased for the head office during the year under review for a value of Rs.4,225,373 were not included in the statement of non-financial statements in the financial statements. | No payment has been made for the equipment so far and I would like to inform you that it will be included in the fixed assets register in the future. | As all payments have been completed by 31 December 2020, they should be accounted for as non-financial assets |
| (h) | Acquisition of capital assets expenditure of Rs.61,980,493 on adding a four storied extension to the Head Office Building was recorded in the accounts as recurrent and improvements. As a result, this amount was not included in the statement of non-financial assets | Not answered. | Provisions for recurrent and improvements should be spent on the relevant Head of Expenditure. |

1.6.3 Cash Flow Statement

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Although advance settlements and advance payments should be shown under investment activities when	Action will be taken to correct this error in the preparation of financial statements for the year 2021	Deposit receipts and payments should be accurately recorded

preparing the cash flow statement for the year ending 31 December 2020, it was added to the receipts and payments of deposits under the Financial Activities.

when preparing a cash flow statement.

- (b) Revenue amount of Rs.2,151,773 received from machine rental and auctioning during the year under review accounted for general deposits receipts, as a result deposits income in the cash flow statement were overstated and income were understated from that amount.
- I kindly inform you that after identifying the information relevant to this value, it will be properly credited to the government revenue in the future.
- The cash flow statement must be properly prepared.

1.6.4 Non- maintenance of Documents and Books

Sample audits revealed that the department had not maintained the following documents and some documents had not been maintained properly and updated.

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
(a) No security registers had been maintained for the Agricultural Research and Production Assistants officers as per F.R. 891(i).	I kindly inform that the District Offices have been informed to maintain the security registers of the District Offices by the respective District Offices.	All officers who are required to deposit securities must deposit.
(b) Vehicle log books were not maintained as per F.R. 1645.	Not answered.	Action should be taken as per F.R. 1645.

1.6.5 Lack of Evidence for Audit

Audit Observation -----	Comments of the Accounting Officer -----	Recommendation -----
Twenty vehicle repair and accident files had not been submitted for audit.	Not answered.	All information, files and evidence required for the audit must be provided.

2. Financial Review

2.1 Expenditure Management

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Recurrent Expenditure		

Rs.100,000 of provisions relating to one subject had been transferred to other Expenditure subject under F.R.66, but those transfers had not been fully utilized. Further, Rs.30,000,000 from one expenditure subject had been transferred to another expenditure object under F.R.66 but out of that 83 percent was saved.	Provision was made by FR 66 for the forecast of interest to be paid on behalf of the officers who applied for the property loan, this provision was saved due to the delay in disbursement of loans by banks due to the COVID epidemic and the inability of officials to complete the borrowing process. Provisions were made by Financial Regulation 66 to pay arrears salaries that had not been paid for many years, but could not be paid at the end of the year due to insufficient funds. I kindly inform you that these salary arrears remain unpaid in the year 2021 as well.	The full provision should be utilized.
(b) Treasury Imprest receipts		

Although, an imprest of Rs.25,916,619 had been received from the Treasury on 31 December 2020 at the request of the Department dated 29 December 2020 for minor irrigation rehabilitation payments under the World Food Program, The entire amount had been returned to the treasury without payment stating that there were deficiencies in the payment vouchers.	Payments had to be suspended due to several shortcomings pointed out by the District Project Inspectors before final payments were made. Therefore, I kindly inform you that the foreign aid received from the Treasury General Deposit Account will be deposited in the same account.	All allocations received from the Treasury for the year should be utilized.

2.2 Commitments on liabilities and obligations

Following Audit observations were revealed on liabilities and obligations.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Although no department shall be liable for any expenditure or obligation on a work, service or supply unless there is an annual estimated financial provision, except where otherwise provided for in Financial Regulation 94 (1), it was observed that the Department had incurred liabilities of Rs. 1,390,244 exceeding the savings of 03 capital expenditure subjects.	No provision was made by vote-on accounts, for liabilities made on the basis of the initial provision. Therefore, I kindly inform you that the provisions were not sufficient for the obligations that actually came up.	Expenditure or obligation should not exceed the savings.
(b) Although, capital and recurrent savings in 02 expenditure subjects during the year 2020 were Rs.254,728,219 and Rs.55,510,999 respectively, due to insufficient funds received from the treasury, liabilities and obligations were incurred for Rs.196,325,746.	Not answered	To get enough money, should try as much as possible.
(c) Although it is stated in the Annual Progress Report that there is a liability Rs. 1,111,625 for the construction of fertilizer storage facilities at the Puttalam Agrarian Services Center under Expenditure object No.281-2-2-8-2104, as it was stated in the financial statements as Rs.1,353,009, the liabilities were increased by Rs.241,384.	Not answered	Changes must be adjusted.
(d) According to the information submitted to the audit by the Kurunegala District Office, the value of the liabilities under Expenditure Object No. 281-2-2-0-2001 for the Buildings and Construction amounted to Rs.1,797,029 and had not been mentioned in Note iii and therefore those construction was understated by the value of the liabilities.	Not answered	Liabilities and obligations must be properly accounted for.

- (e) Due to the lack of provisions in the year 2020, liabilities and obligations amount of Rs.36,919,972 related to 25 expenditure items were not included in the accounts. Not answered Liabilities must be properly accounted for.

2.3 Utilization of provisions provided by other Ministries and Departments

Following observations are revealed in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) The Farmer's Trust Fund had allocated Rs. 22,800,000 for the construction of 06 Agrarian Bank buildings, out of which work had commenced on 04 buildings at a cost of Rs. 5,980,000. According to the action plan, the construction was supposed to be completed by 31 March 2020, but the work had not been completed by 31 December 2020.</p>	Not answered	Work must be completed by the due date.
<p>(b) "Hela Suwaya" Pilot Project</p> <p>With the aim of cultivating 10,000 acres using non-toxic traditional paddy varieties and harvesting 18,000,000 kg of paddy by the year 2020, the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development had provided Rs.82,600,000 to the Rajanganaya Left Bank Agrarian Services Center of the Agrarian Development Department, to purchase seed paddy under Expenditure object No. 118-2-3-20-2509 and to obtain medicinal liquid fertilizer under Expenditure No. 118-2-4-1405. The following facts matters are observed in this regard.</p>	Not answered.	Projects should be well planned and supervised.
<p>(i) Using those provisions, 3,152 acres of paddy lands were cultivated and a harvest of 1,974,350 kilograms was obtained and it was observed that it was 11 percent of the expected yield.</p>		

(ii) 181,641 kg of seed paddy had been purchased for the above cultivation and it was observed that there were 57,865kg of unused seed paddy as at 31 December 2020. Furthermore, 18,056 liters of liquid fertilizer had been obtained from a private company called 'Hela Suwaya' and the relevant institution had stated that it had to pay Rs.18,500,000 for that, but the department did not have any written evidence to prove its accuracy.

2.4 Reconciliation Statement on Public Officers' Advance Accounts

Following observations are revealed in this regard.

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) According to the National Budget Circular 118 dated 11 October 2004, the outstanding balances of the officers who transferred in and out should be settled within 03 months, as at 31 December 2020, the outstanding balance of the officers who transferred in and out was Rs.117,616 and Rs.1,683,639 respectively.</p>	<p>Not answered.</p>	<p>Action should be taken in accordance with National Budget Circular 118 dated 11 October 2004.</p>
<p>(b) The outstanding debt balance of suspended, retired, deceased, retired and other debtors as at 31 December 2020 was Rs.18,345,493 and out of which the balance for more than 5 years was Rs.8,267,272.</p>	<p>Not answered.</p>	<p>Recovery should be made from gurantees, pensions, defaulters or any other suitable method.</p>
<p>(c) The outstanding balance of the officers transferred to the Provincial Councils, as at 31 December 2020 was Rs. 1,083,808, out of which the outstanding balance for more than 05 years was Rs. 722,730.</p>	<p>Not answered.</p>	<p>Loan balances should be settled promptly.</p>

2.5 Deposits

The following observations are made regarding deposit payments and balances related to financial statements.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) The loan balance of Rs. 262,519 collected from retired government officials was not sent to the Agrarian Service Centers but was kept in General deposits at the Head Office.	After identifying these balances separately in the future, the relevant divisions were informed to settle the matter with the District Offices.	Payments due to Agrarian Service Centers should be made without delay.
(b) Contract retention of Rs.12,481,081 in 06 District Offices carrying forward for a period of 02 to 05 years and no action had been taken until 31 December 2020 to settle the relevant retentions by rectifying the existing deficiencies or if not, using the retention amount to make up for the shortcomings.	From Contract Retention Deposits exceeding 02 years as on 31 December 2020, although requisition papers have been submitted for Rs. 04 million, I kindly inform you that the payments have been delayed due to insufficient funds and the District Offices have been informed to take action to settle the remaining retention expeditiously.	Deficiencies in contract payments should be filled and the balance should be paid promptly.
(c) The amount of Rs. 5,452,750 obtained through an auction at the Kurunegala District Office in the year 2019 was kept in the General Deposit Account without being sent to the Head Office.	Request forms have been submitted for the proceeds from the auction of tractors and accessories, but I kindly inform you that the payment has been delayed due to insufficient imprests.	Disposal income should be credited to government revenue.
(d) Due to the shortcomings in the projects of 03 District Offices, a retention amount of Rs.1,117,847 has been maintained in the Public Deposit Account for more than 02 years and no action had been taken to rectify the deficiencies in those contracts and repay the retention money.	I kindly inform you that the District Offices have informed that the remaining retention will be released after verifying the amount due from the retention amount, after calculating the amount spent on the relevant projects as the later deficiencies are being rectified.	Contract shortfalls should be made from the retention money and the balance should be credited to government revenue after ensuring that it is not claimed.

- (e) The Department had credited Rs.386,132 to the government revenue without settling the relevant debt balances which was collected from the retired officers for settling the public officers advance B account of the. Not answered. This amount should be adjusted to the advance loan balance of the relevant officer.
- (f) Although the acre tax collected by the Agrarian Service Centers should be sent to the District Office and then remitted to the Agrarian Development Fund, Rs.2,916,607 of acre tax revenue collected by 06 District Offices in the year 2020 had been retained in the Public Deposit Accounts without being remitted to the Agrarian Development Fund. I kindly inform you that the District Offices have been informed to send the relevant acre tax money to the Head Office expeditiously. Revenue from the Agrarian Development Fund should be credited to that fund.
- (g) Despite requests to withdraw money from tender deposits in 05 district offices, the unpaid deposit due to lack of imprest was Rs.5,524,474. No request for cash from the Treasury to settle general deposits in 2020 and 2021. I kindly inform you that action will be taken to settle general deposits as soon as the money is received. Imprest must be obtained and settled.
- (h) The amount of Rs.1,132,000 collected by the Monaragala Agrarian Development District Office for agricultural equipment distributed to farmers on a 50 percent contribution basis by the Monaragala District Secretariat in the years 2019 and 2020 was retained in the General Deposit Account without being remitted to the District Secretariat. Request forms have been submitted to settle the balance but are unable to settle due to insufficient funds and I kindly inform you that as soon as the money is received, it will be settled. Relevant amount should be remitted to the District Secretariat.

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| (i) | The balance amount of Rs.6,567,560 of the fertilizer subsidy given to 04 district offices was kept in general deposit accounts without being remitted to the head office. | The District Offices have been instructed to settle the money received under the Fertilizer Subsidy by crediting it to the Government Revenue by the District Offices themselves without sending it to the Head Office and I kindly inform you that the District Offices have been informed to take immediate action accordingly. | Should be properly settled immediately. |
| (j) | Although the disposable income of Rs. 1,967,600 obtained from the auction of old agricultural machinery by the Ampara District Office in the year 2018 should be credited to the Agrarian Development Fund, without doing so it was kept in the general deposit account. | It is being investigated whether the disposal income from the auction of these agricultural machinery should be credited to the Agrarian Development Fund or the government revenue, and I kindly inform you that it will be settled as soon as it is completed. | Should be credited to the Agrarian Development Fund. |
| (k) | A sum of Rs.1,097,292 received from the Rubber Development Department for the replanting of rubber seedlings to the Ampara District Office was kept in the general deposit account without being used for the relevant purpose. | The final bill of the relevant project is currently being prepared and I kindly inform you that the bill will be settled as soon as it is received. | However, the money received from the institutions should be used for the relevant purpose. |
| (l) | The amount of Rs. 402,225 given to the Kurunegala District Office in 2019 for the development of the Rasnayakapura Kanuketiya Muduttawa tank was not used for construction and was kept in the general deposit account. | Not answered. | Should be applied to the relevant work immediately. |

2.6 Certifications to be made by the Accounting Officer

According to the provisions of Section 38 of the National Audit Act No. 19 of 2018, the Accounting Officer was required to certify the following matters but had not acted accordingly.

Audit Observation	Comments of the Accounting Officer	Recommendation
(a) Although the Chief Accounting Officer and the Accounting Officer should ensure that all audit queries are answered within the specified periods as required by the Auditor General, the audit queries were not answered as per paragraph 3.6 of the report.	There are sometimes delays in answering as the relevant explanations for all the audit queries have to be obtained from the District Offices and the respective centers and the answers have to be filed.	Action should be taken in accordance with the provisions of sub-section 38 (1) (e) of the National Audit Act No. 19 of 2018.
(b) Although the Chief Accounting Officer and the Accounting Officer should ensure that there is an effective methodology for the proper functioning of the internal audit function, according to the observations made in paragraph 4.2 of the report, that requirement had not been met.	Not answered.	- Do -
(c) The Chief Accounting Officer should have written a review of the effectiveness of the internal control system and submitted a copy to the Auditor General, but had not done so.	Not answered.	- Do -

2.7 Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with the provisions of the laws, rules, and regulations were observed during the sample audit tests.

Observations	Comments of the Accounting Officer	Recommendation	
Reference to Laws, Rules and Regulations	-----	-----	
<p>(a) Agrarian Development Act No. 46 of 2000 as amended by the Agrarian Development Act No. 46 of 2011</p> <p>-----</p>	<p>Agrarian Development Councils had not been established.</p>	<p>Orders are currently being prepared and referred to the Legislative Drafting Department. I kindly inform you that action will be taken to issue gazette notifications upon receipt of it.</p>	<p>Action should be taken in accordance with the provisions of the Agrarian Development Act.</p>
<p>(b) Employees Provident Fund Act No. 15 of 1958 and Employees' Trust Fund Act No. 46 of 1980</p>	<p>The installment amount of Rs.1,585,415 of the Employees Provident Fund and the Employees' Trust Fund, which are deducted from the salaries of the temporary officers attached to the Ellanga project, have been retained in the General Deposit Accounts of the Head Office without being paid to the Central Bank of Sri Lanka and the Department of Labor. Although this was reported in the previous year, the necessary action had not been taken.</p>	<p>I kindly inform you that necessary steps will be taken in this regard in the future.</p>	<p>Action should be taken in accordance with the relevant provisions.</p>

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

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| (i) | F.R. 571 | Although the final balance of the deposit accounts exceeding 02 years should have been disposed of, relating to the total balance of deposits exceeding 02 years as on 31 December 2020 in 04 public deposit accounts amounting to Rs. 64,853,898 had not been acted upon. | Not answered | Action should be taken as per the Financial Regulations. |
| (ii) | F.R. 104(1)(a) | Although investigations should be initiated as soon as a loss or damage occurs to determine its magnitude and cause and to determine those responsible, investigations had not been initiated to determine those responsible for the three vehicle accidents. | Not answered | Action should be taken as per the Financial Regulations. |
| (iii) | F.R. 1645(b) | Although the driver of each vehicle should be required to keep a daily driving record in General format 268 and have it inspected regularly by administrative officers, daily driving records for 14 vehicles at the department's head office had not been completed by the drivers. | Not answered | Action should be taken as per the Financial Regulations. |
| (iv) | F.R. 1646 | Although the original copy of the monthly summary of travels written in the general format 265 (a) should have been submitted to the Auditor General, it had not been done in 14 vehicles. | Not answered | Action should be taken as per the Financial Regulations. |

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| (v) | F.R. 1647(e) | The officer in charge of the vehicle should have maintain a list of the motor vehicles in his possession, including the type and design of each vehicle, the registration number, the date of transfer, the date of handover and other information, but he had not done so. | Not answered | Action should be taken as per the Financial Regulations. |
| (d) Public Administration Circular
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| (i) | Public Administration Circular No. 30/2016 dated 29 December 2016 | After each fuel test, after a period of 12 months, or after a mileage of 25,000 km, or after a major overhaul of the engine, a fuel test should be performed again, this had not been done with regard to 137 vehicles of the department. | Not answered | Action should be taken according to the circular. |
| (ii) | Ministry of Public Administration and Management Circular No. 05/2018 (i) dated 24 January 2018 | The Citizen / Client Charter pertaining to the Department of Agrarian Development had not been prepared. | Not answered | Action should be taken according to the Public Administration circular. |
| (iii) | Public Administration Circular No. 02/2018 dated 24 January 2018 | Human Resource Development Plan had not been prepared in accordance with the circular provisions. | Not answered | Action should be taken according to the circular. |

(e) **Public Finance Circular**

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| (i) | F.R. 770 (4) (b) amended by Public Finance Circular No. 01/2020 dated 28 August 2020. | As per the recommendation of the Special Board of inspection, 02 machines to be disposed of in 2015, 07 machines to be disposed of in 2018 and 26 vehicles to be disposed of in 2019 had not been disposed of till 31 March 2021. | Not answered | The Disposal Committee should be appointed as per the circular instructions. |
| (ii) | Section 2 of Guideline No. 06 issued by the Department of Public Accounts in accordance with paragraph 10.1 of the Public Finance Circular No. 02/2020 dated 28 August 2020. | Even though the Financial statements should have been submitted in linguistic language, but it was not done so. | Not answered | Action should be taken according to the circular. |
| (f) | Public Finance Circular No. 265/2018 dated 10 May 2018 | Although it has been stated that the public sector accounting standards are applicable for the annual financial statements prepared covering the periods commencing on or after January 1, 2018, the Department had issued a letter to prepare the annual financial statements of the Agrarian Service Centers, compiling the report, presenting the budget data, prior year adjustments, etc which did not comply with the provisions of the circular. | Head numbers have been introduced for all the revenue and expenditure identified by the Agrarian Development Committees / Development Councils to facilitate the correct identification of revenue and expenditure as well as the preparation of computerized software to be prepared in future for the preparation of financial statements of Agrarian Service Committees / Development Councils. It is submitted in accordance with Public Accounts Circulars. | Accounts of Agrarian Service Centers should be presented in accordance with the Public Sector Accounting Standards. |

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| (g) | Section xv paragraph 05 of the Secretary to the Public Service Commission Circular No. 3/2019 dated 10 October 2019 | Although the maximum service period on a contract basis should be only one year, the Department had continuously granted service extensions to 18 officers such as Deputy Commissioner, Assistant Commissioner, Engineer and Administrative Officer without any breach of service. | Not answered | Action should be taken according to the circular. |
| (h) | Department Circulars

Section 30 (iii) of the Circular No. 107 of the Commissioner General of Agrarian Development dated 16 October 1981 | 09 Financial Statements of the Agrarian Service Committees for the years 2016, 2017, 2018 and 2019 and 544 Financial Statements of the Agrarian Services Committees for the year 2020 had not been submitted to the Auditor General on the due date. | It is correct to mention only the financial statements of the two Agrarian Service Centers at Lahugala, Panama in the Ampara District as arrears financial statements. Preparation of financial statements for the year 2020 is at a low level as compared to last year as financial statements are being prepared in relation to the new forms introduced by the Department for the preparation of financial statements for the year 2020. | Action should be taken according to the Department circular. |
| (i) | Instruction Letter “No. 7/6/4/1-Running Charts” dated 28 December 2018 of the Commissioner General | Although overtime should be paid only on the certificate of the officers in charge of the subject that the daily running charts of the relevant month have been provided, An overtime payment of Rs. 3,264,231 was made for 17 drivers who did not submit daily running charts. | Not answered. | Follow the advice letter of the Commissioner General. |

2.8 Improper Transactions

Audit Observation

Comments of the Accounting Officer Recommendation

17 Agrarian Development District Offices had obtained a total of Rs.76,350,549 from 339 Agrarian Service Centers in the districts on reimbursement basis. It was observed that a large sum of money such as Rs.3,520,000 had been obtained from some Agrarian Service Centers. That amount had not been settled by 31 December 2019, and had not been included in the liabilities for that day.

Not answered.

As it is an independent institution established under the Agrarian Services Committee Act, the amount of Rs.76,350,549 obtained by the District Offices should be reimbursed to those Agrarian Service Centers.

2.9 Issuance and settlement of advances.

Audit Observation

Comments of the Accounting Officer Recommendation

Although the staff officer who receives the Ad-hoc sub imprest must pay the p Ad-hoc sub imprest immediately upon completion of the work, it had taken 22 to 352 days to settle the advance of Rs. 2,544,314 given to 30 officers on 175 occasions during the year under review.

I kindly inform you that this situation has arisen due to the disruption of normal duties due to the COVID-19 emergency situation prevailing in the country and the inability to perform specific functions within the stipulated time frame as per the circular instructions.

Ad-hoc sub imprest should be settled within the stipulated time after completion of the relevant work.

2.10 Operating Bank Accounts

Following observations are revealed in audit test check on bank accounts operation.

Audit Observation

Comments of the Accounting Officer Recommendation

- (a) Action had not been taken in accordance with F.R.396 (d) regarding 251 cheques amounting to Rs. 7,997,356 in the bank reconciliation statement as at 31 December 2020.

It was informed that action should be taken as per F.R. 396 (d) to settle the cheques at the District Offices. Letters and reminders have been sent to the cheques at the head office and action had

Action should be taken as per the Financial Regulations.

been taken to issue for damaged bond cheques and credit other cheques to government revenue.

- (b) In one district office there were unidentified payments of Rs.63,775 in the bank reconciliation statement and they had not been identified and adjusted to the cash book.
- All the books in the Kilinochchi District Office were destroyed due to the war at past. The transactions were carried out in accordance with the Banking Statement issued in April 2009 by the Bank of Ceylon, Kilinochchi and again in May 2009 the Bank of Ceylon issued a new Banking Statement. Of these, Rs.63,775 were stated as unidentified payments. It has been stated that the bank does not have the details as the documents of the bank were destroyed during the war.
- Identify unidentified balances in bank reconciliation statement and make adjustments to the cash book.

3. Operational Review

3.1 Delays in project execution

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) A sum of Rs. 48,548,237 had been spent up to 31 December 2020 for 29 minor irrigation projects of with an estimated cost of Rs.101,985,237 which were to be completed by 31 December 2020, but those projects had not been completed by that date.	Not answered.	Projects should be implemented in accordance with the action plan.
(b) A sum of Rs. 2,197,669 had been spent for construction of 02 fertilizer warehouses of with an estimated cost of Rs.6,170,000 which were to be completed during the year under review, but the work had not been completed by 31 December 2020.	Not answered.	Projects should be carried out as planned in accordance with the action plan.

3.2 Annual Performance Report

Audit Observation

Comments of the Accounting Officer

Recommendation

The Annual Performance Report which was required to be submitted along with the Annual Financial Statements as per paragraph 10.2 of the Public Finance Circular No. 02/2020 dated 28 August 2020 had not been submitted.

Not answered.

Circular instructions should be followed.

3.3 Foreign Funded Projects

Following observations are made.

Audit Observation

Comments of the Accounting Officer

Recommendation

- (a) Twenty-six minor irrigation rehabilitation projects were initiated in 2020, with the contribution of the World Food Program's for machinery and labor costs and as at 31 December 2020, the labor and machinery expenditure were Rs.37,194,429. Also, according to the action plan for the year 2020, minor irrigation work should have been completed by the end of October 2020 and handed over to the farmers' organizations. However, it was observed that 17 projects costing Rs. 17,517,887 in labor and machinery had not been completed by 31 March 2021.

Not answered.

Projects should be implemented in accordance with the action plan.

- (b) Provisions of Rs.2,327,272,272 had been provided by the Department of External Resources to the Ministry of Agriculture in 2005-2008, to provide free solar powered water pumps and drip irrigation technology to farmers in the dry zone of Sri Lanka to cultivate their crops during droughts with minimal water availability and as a solution to the current energy crisis. Out of these provisions, 7,231 solar water micro systems were provided to 19 Agrarian Service Centers. Although all recoveries

These systems were installed by the then technical officers of Fore site Engineering Company and the district offices informed that accurate information about their biographical data has not been provided to the district office. According to the agreement, it has been informed that solar power systems will be acquired in case of default, but there is no clear instruction on the procedure to be followed.

According to the agreement, all the money should be recovered quickly.

for these systems must be completed by the end of 2018, according to the letter addressed to the Commissioner General of the Agrarian Development Department by the Director General of the Treasury Operations Department dated 03 July 2020, the amount due at the end of the year was Rs. 2,264,753,696. It was observed that by the year 2020, 90 per cent of the systems provided were misplaced, defunct, farmer information could not be found and were inactive. Accordingly, it was observed during the audit that the expected objectives of the project were not achieved.

Also, solar water micro systems have been provided without agreements. There is no specific value for the initial deposit. Due to the shortcomings in the contract, problems have arisen in recovering the money on time. Furthermore, due to the lack of proper coordination between the Ministry of Agriculture and Fore Site Engineering Company from the outset, the expected objectives have not been achieved due to problems with the proper recovery.

(c) An Agreement was signed between the Deputy Secretary to the Treasury and the Secretary to the Ministry of Agriculture Development and Agrarian Services on 06 August 2007 regarding the project mentioned in paragraph (b) above. According to the sub-loan agreement, the department had agreed to recover the relevant loans in 20 installments as Rs.15,190 in every six months and deposit them in the Farmers' Bank, and to submit a detailed document to the External Resources Department on a monthly basis on the loan installments and the amount of loans charged.

Not answered.

A detailed document on loan installments and loan amounts should be sent to the Department of External Resources on a monthly basis.

(d) According to the Ministry of Agriculture, the Department of Agrarian Development has provided 7,231 solar water systems to 19 districts, but according to the Agrarian Development District Office, only 7,005 systems were received, resulting in 226 differences.

Not answered

The difference should be identified and the amount to be paid to the External Resources Department should be revised.

3.4 Assets Management

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) A staircase had not been constructed to enter the Panadura canteen which had been constructed at a cost of Rs.1,579,332 out of the allocations received from the Ministry of Agriculture in the year 2018. Later, a staircase was built at a cost of Rs.197,000 from the committee fund of the Panadura Agrarian Services Center, but the restaurant was not open until 31 March 2020.	Not answered.	The canteen should open immediately.
(b) The jeep bearing No. CR-0098 provided to the Department by the World Food Program could have been registered and used in 2015, but had been parked at the Malabe parking lot since that year.	Not answered.	Jeep CR-0098 should be registered and driven.
(c) During the period from 1977 to 2020, 17 fertilizer stores were unused.	In order to submit specific information regarding the 17 unused fertilizer stores, I kindly request you to submit the relevant annexure.	Fertilizer storage should be kept in working condition.
(d) Even though assets such as 234 Wheel Tractors, 79 Two Wheel Tractors, 118 Tractor Trailers, 101 Harvesters, 278 Disc Plows / Hook Plows, 254 Mud Wheels and 1,009 other equipment at 21 Agrarian Service Centers had been inactive for from 06 years to 24 years and the relevant assets had not been disposed.	Disposal of unused tractors and agricultural machinery of the department is in progress and part of it has been disposed.	Assets must be disposed of before they can decay.

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| (e) | DAS 91, DAS 55, DAS 97 and DAS 86 machines which were in operation at the Mahawa plant until 24 September 2020, were not in service. Further, the usage was at a low level in the years 2018 and 2019 also. The roller machine No. DAS 69 purchased in the year 2010 had not been used since the date of purchase. | Not answered | All assets must be fully utilized. |
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3.5 Loss and Damages

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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(a) Although the loss of Rs.29,994 incurred due to motor vehicle accidents has been recovered by 31 December 2020, those balances were shown in the Financial Statement as carried forward Balance. Therefore, the final non-deductible balance was overstated by Rs. 29,994. It was reported in the previous year but it was not corrected.	Not answered.	The relevant balance should be written off from the books.
(b) The loss of Rs. 239,221 incurred due to 04 vehicle accidents had not been taken into the opening carried forward balance as at 01 January 2020.	Not answered.	The error must be corrected.
(c) Although according to the loss and damage register the loss due to the accident of the vehicle bearing number PF - 8446 was Rs.2,292,458 but it was stated as Rs.850,000 in the financial accounts.	Not answered.	The error must be corrected.
(d) Although according to the loss and damage register the loss due to the accident of the vehicle bearing number PJ – 3228 was Rs.1,013,681 but it was stated as Rs.550,000 in the financial accounts.	Not answered.	The error must be corrected.

- (e) The damage caused by the vehicle number PJ - 3238 was Rs. 1,916,394 and the amount received from the Insurance Corporation was Rs. 1,502,934. The uncollected loss was not stated in the financial statements. Not answered. Non-recoverable losses should be included in the financial statements.

3.6 Un-replied Audit Queries

Audit Observation	Comments of the Accounting Officer	Recommendation
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<p>61 audit queries issued to the Departments during the year under review and 78 audit queries issued in previous years had not been answered as at 31st March 2020 and the value of the countable transactions pertaining to those queries was Rs. 3,475,754,381.</p>	<p>Not answered.</p>	<p>In accordance with Financial Regulation 155, the Accounting Officer shall periodically inspect the Audit Query Register referred to in Financial Regulation 452 (1) and take action to rectify any deficiencies pointed out in the audit queries received. Those queries should be answered immediately. If such queries may be delayed, action should be taken to send an interim report.</p>
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3.7 Management Weaknesses

Following observations are made.

Audit Observation	Comments of the Accounting Officer	Recommendation
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| <p>(a) An unresolved loss of Rs.2,026,502 had been continuing in the loss and damage register of the department for 17 years without solving after investigations.</p> | <p>Not answered.</p> | <p>Avoid abnormal delays in losses and damages and recover damages immediately</p> |
| <p>(b) According to the investigations carried out under section 104 from 2014 to 2019, the amount of Rs. 11,228,726 due from 39 officers had not been recovered by 31 December 2020.</p> | <p>Not answered.</p> | <p>All investigations should be planned to be completed as soon as possible as an unusual delay is observed.</p> |

- (c) The Recommendation had not been implemented in respect of 08 vehicles which had been recommended for repair and operation by the Disposal Board. Not answered. The recommendations made by the Disposal Board should be implemented.
- (d) A sum of Rs.80,790,000 had been provided to the Anuradhapura District Office from the Farmers' Trust Fund in the year 2015/2016, for the cultivation of corn by 5,386 farmers on the basis of recovery in 06 months, although 04 years have passed, the amount due is still Rs. 25,976,053. Not answered. Loans must be recovered quickly.
- (e) A sum of Rs. 46,200,000 had been provided to the Anuradhapura District Office from the Farmers' Trust Fund in the year 2019/2020, for the cultivation of corn by 4,200 farmers on the basis of recovery in 06 months, the uncollected amount as at 31 December 2020 was Rs. 1,801,000. Not answered. Continue to follow up and recover the loan.
- (f) Out of the Rs. 14,800,000 loan disbursed to 33 farmers in Anuradhapura, Kurunegala, Puttalam, Colombo and Nuwara Eliya District Offices under the Saralanka Loan Project, Rs.11,285,972 was still due and the progress of this loan recovery was very poor. Although this project aims to promote the production of organic fertilizer, 36 out of 286 farmers who have given loans will not implement the project by the year 2020 and the amount of fertilizer produced by 27 farmers per month will be less than 400 kg. Not answered. Continue to follow up and recover the loan.

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| (g) | The amount of Rs. 280,000 received from the Farmers 'Trust Fund for the construction of the Watarekkawa Agricultural Road at the Anuradhapura District Office on 01 January 2018 has been returned to the Farmers' Trust Fund on 13 July 2020 and 24 August 2020 due to non-commencement of development work on that agricultural road within a period of 02 years. | Not answered. | Provisions provided by other Ministries, Departments and Institutions should be utilized during the year. |
| (h) | Fingerprint machines were installed at 267 Agrarian Service Centers and 30 of them were out of order. Although fingerprint machines were used at 71 Agrarian Service Centers, the head office was unable to obtain the expected reports due to technical problems. 02 Agrarian Development District Offices in Colombo and Hambantota had not been submitted for audit. | Not answered. | Fingerprint machines should be fixed and record their arrival and departure. All reports to be reported to the Head Office should be duly submitted. |
| (i) | Necessary action had not been taken to recover the non-performing farmer's loan balances amounting to Rs.286,664,393 issued by farmer's banks in 16 district offices, existing for 6 to 20 years. | Not answered. | Delayed loans should be recovered promptly. |
| (j) | According to the financial statements prepared as on 31 December 2019 at 413 Agrarian Service Centers, there were 4,366 outstanding long-standing employee loans, agricultural commodity loans, project loans etc. worth Rs.527,262,332. No action had been taken by the District Offices and the Department to recover the above loan balances. | Not answered. | Loan balance should be recovered immediately. |
| (k) | Fourteen Agrarian Development Officers, five Agrarian Service Center Clerks and a Technical Officer working in the Ratnapura District Office had been deployed at the same location for more than 10 years. | Not answered. | Deploying in one place for a long time should not be done. |

4. Good Governance

4.1 Services to the Public

Audit Observation

Comments of the Accounting Officer

Recommendation

During the year 2020, 473 complaints were received by the Department from the Presidential Secretariat, the Prime Minister's Office, the Ministry of Agriculture and the 'Tell the President' program and out of these, no action was taken on 291 complaints. Furthermore, the current status of 1,226 complaints sent to the District Offices in 2017, 2018 and 2019 had not been obtained by the Head Office.

Not answered.

A methodology should be introduced to investigate complaints.

4.2 Internal Audit

Audit Observation

Comments of the Accounting Officer

Recommendation

It was observed that the objectives included in the internal audit plan such as, examine of receipts and payments at the head office of the department, procurement inspection and repair of the head office and development activities, tank and irrigation repair work, examine of receipts and payments of the Agrarian Development Fund, final accounts of the centers, could not be able to achieve in the year 2019 as well as in the year under review.

Not answered.

Tasks included in the internal audit plan must be performed.

5. Human Resource Management

Following observations are made.

Audit Observation

Comments of the Accounting Officer

Recommendation

(a) As at 31 December 2020, the total number of vacancies in the Department was 3,700 and out of the approved number of employees for the 12 vacancies, not a single employee had been recruited.

Not answered.

Vacancies in essential posts including Commissioner (Administration and Human Resources), Commissioner (Services) and Commissioner (Development) due to retire

in October 2020 should be filled.

- (b) Although Grade I officers of the Sri Lanka Administrative Service should be appointed to the posts of Commissioners as per the Departmental Recruitment Scheme, Officers Grade III of the Sri Lanka Administrative Service were appointed on acting basis to perform duties for the posts of Commissioner Services, Administration and Human Resources. Not answered. Action should be taken to fill the vacancies.
- (c) There were 559 farmers' Banks island wide and all the posts including farmer bank officers and assistant farmer bank officers were vacant. Agricultural Research and Production Partners were deployed for Agrarian Banking and as a result one Agricultural Research and Product Partner was deployed in several divisions of Agrarian Service Centers. Not answered. Action should be taken to fill the vacancies in the essential posts and the Agricultural Research and Production Assistants should be attached to the divisions.
- (d) Due to non-updating of personal files of the officers working in the District Offices of the Department, this situation had adversely affected the retirement activities of the officers who were delayed in confirmation of service, salary increments, annual promotions etc. Not answered. Personal files should be updated.
- (e) In the year 2020, 23 acting appointments were made out of which 14 were Agrarian Development Officer vacancies. Out of these, 06 vacancies had existed for more than 02 years and no action had been taken to fill the relevant vacancies. Not answered. Action should be taken to fill the vacancies.

- (f) In terms of Section xiv of paragraph 5 of the Public Service Commission Office Circular No. 3/2019 dated 10 October 2019, it was stated that no retiree can be employed in the hope of obtaining approval in the future except with the full approval of the Commission. Contrary to that provision, 18 officers were employed subject to the cover approval of the Commission. During the year under review, Rs. 1,786,726 had been paid as salary to 04 officers who were appointed subject to cover approval.
- Not answered.
- Action should be taken to fill the vacancies.