

09 Agrarian Service Committees of Colombo District - 2022

1. Audit Opinion

1.1 The audit of the financial statements of the 09 Agrarian Service Committees of Colombo District for the year ended 31 December 2022 comprising the Statements of Financial Position as at 31 December 2022 and the Statements of Financial Performance, Cash Flows 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 the provisions of the National Audit Act, No.19 of 2018 and the section 58(I) of Agrarian Development Act, No. 46 of 2000. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 A qualified opinion has been expressed relating to 09 Agrarian Service Committees in Colombo District for the year 2022. Even that the material deficiencies are as follows.

1.3 Financial Statements

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

	Audit Observation	Comments of the Management	Recommendation
(a)	All the accounting policies followed by 05 Agrarian Service Committees in preparing the financial statements had not been disclosed in the financial statements and only a few relevant accounting concepts which applied had been disclosed.	Kosgama and Kahathuduwa Agrarian Service Committees have informed that they are working to prepare according to the Sri Lanka Public Sector Accounting Standards, while Kotte, Homagama and Padukka Agrarian Service Committees have not submitted answers.	Should be done according to the Sri Lanka Public Sector Accounting Standards.
(b)	According to Sri Lanka Public Sector Accounting Standard No. 01, paragraph 21 (c), 09 Agrarian Service Committees had not been submitted a statement of changes in net assets/equity with the financial statements.	That it is not included in the financial statement forms introduced by the head office.	Should be done according to the Sri Lanka Public Sector Accounting Standards.

1.3.2 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
(a) According to the stock verification report of one Agrarian Service Committee as at 31 December 2022, the total value of various stocks was Rs.793,297, but according to the statement of financial position, the value related to those stocks was stated as the total value of Rs.1,540,571 according to the quantitative stock account. As a result of which the actual stock value at the end of the year was not stated, a stock of Rs.747,274 worth of physical non-existent stock had been shown as current assets in the statement of financial position.	Answers not submitted.	Stock values should be stated correctly in the financial statements.
(b) Due to the adjustments of Rs.581,366 in the year under review to the initial accumulated fund balance of Rs.3,814,822 of an Agrarian Service Committee, the balance of the accumulated fund is Rs.4,396,189 as of 31 December 2022, but the transactions, events and information related to the adjustments had not been submitted for audit.	Answers not submitted.	Approved journal entries should be maintained for the adjustment made to the accumulated fund.

1.3.3 Unreconciled Control Accounts or Reports

Audit Observations	Comments of the Management	Recommendation
There was a unreconciled total of Rs.972,052 in the balance between the financial statements and corresponding reports related to 12 accounting subjects of 04 Agrarian Service Committees.	02 Agrarian Service Committees said that they will submit the same information in the future and the other Agrarian Service Committees have not submitted their answers.	Reasons for mismatches should be investigated and corrected.

1.3.4 Suspense Account

Audit Observations	Comments of the Management	Recommendation
In one Agrarian Service Committee, the debit balance of suspense account brought forward from 06 years ago is Rs.222,625 and a credit balance of suspense account of Rs.260,839 and in another Agrarian Service Committee suspense account debit balance of Rs.254,065 brought forward from a year ago had not been settled.	The Kosgama Agrarian Service Committee has informed that they will investigate and settle the matter in the future, while the other Agrarian Service Committees have not submitted their answers.	Since these suspense account balances have existed for many years, the reasons for these suspense account balances should be searched quickly and the accounts should be rectified.

1.3.5 Lack of Written Evidence for Audit

Audit Observations	Comments of the Management	Recommendation
There were no evidences of 08 Agrarian Service Committees such as fixed assets registers, balance confirmations and age analysis relating to assets of Rs.25,194,349 and balance confirmations, age analysis and bond deposits register for liabilities of Rs.2,737,378 relating to 04 Agrarian Service Committees. Therefore those accounting subjects could not be satisfactorily vouched in audit.	Answers not submitted.	Arrangements should be made to submit relevant evidences to confirm the balances of assets and liabilities.

1.3 Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and regulations	Non-compliance	Comment of the Management	Recommendation
(a) National Audit Act No. 19 of 2018			
(i) Section 41	Regarding the Colombo District Agrarian Service Committees, only one audit and management committee meeting had been conducted for the year under review.	At least one meeting should be held every quarter.	Should be done according to the audit act.
(ii) Sub section 18 (4)	Although it is stated that "an entity being audited should pay and settle the accounts for audit fees within thirty days from the date of the invoice", Rs.82,829 from 1996 to 2013 by Kosgama Agrarian Service Committee and Rs.50,628 from 1998 to 2008 by Malabe Agrarian Service Committee had not been paid as audit fees.	The Kosgama Agrarian Service Committee had informed that they will pay the audit fees, while other Agrarian Service Committees had not submitted their answers.	Audit fees payment should be done according to the audit act.
(iii) Sub section 38 (1) (e)	Although answers should be made to all audit queries within a specific period as required by the Auditor General, Homagama and Malabe Agrarian Service Committee from 2018 to 2022, Maharagama Agrarian Service Committee from 2017 to 2020, Kosgama Agrarian Service Committee from 2019 to 2021 had not been answered to the draft reports of the Auditor General's report regarding the financial statements.	Answers not submitted.	Answers should be made for Auditor General's draft reports according to audit act.

(b) Agrarian Development
Act No. 46 of 2000

(i) Section 14

Due to the information could not be found, the amount of Rs.11,462, Rs.243,935 and Rs.9,642 which had been received by Kosgama, Kahathuduwa and Maharagama Agrarian Service Committees respectively in the past years as inheritance due to the land owner had not been settled according to the provisions of the Act.

The Kosgama Agrarian Service Committee informed that the advice of the Commissioner of Agrarian Development has been sought and the Kahathuduwa Agrarian Service Committee has informed that it cannot be settled until the court cases are completed, and the other Agrarian Service Committees have not submitted answers.

Should be done according to the Agrarian Development Act.

(c) Financial Regulation of
the Democratic Socialist
Republic of Sri Lanka

(i) F.R. 134 (3)

The audit reports of the internal audit investigations conducted in relation to the Agrarian Service Committees of the Colombo District had not been submitted to the Auditor General.

The Kahathuduwa Agrarian Service Committee has informed that there has been no internal audit and the Kosgama Agrarian Service Committee has informed that it agrees with the audit, and the other Agrarian Service Committees have not submitted answers.

Should be done according to the Financial Regulation.

(ii) F.R. 757 (2) (ආ)

"After receiving the report of the Board of Survey, a copy of it should be submitted to the Auditor General immediately", but the board of survey reports of 08 Agrarian Service

The Kahathuduwa and Kosgama Agrarian Service Committees have informed that the reports have not been sent from the

Should be done according to the Financial Regulation.

Committees related to the district office and year under review had not been submitted to the Auditor General. The other Agrarian Service Committees have not submitted answers.

- (iii) F.R. 880 හා 881 The officers of 07 Agrarian Service Committees, who are in charge of goods and money and sign cheques, had not been kept bail as per the Bail Ordinance. The Kahathuduwa and Kosgama Agrarian Service Committees have informed that the relevant activities are being carried out, and the other Agrarian Service Committees have not submitted answers. Should be done according to the Financial Regulation.

2. Financial Review

2.1 Financial Results

According to the presented financial statements, the total of 09 Agrarian Service Committees in the year 2022 was a surplus of Rs.7,095,770, and the total of 08 Agrarian Banks was a surplus of Rs.2,552,161. In the year 2021, the total of the 09 Agrarian Service Committees was a surplus of Rs.4,195,335, and the total of the 08 Agrarian Banks was a surplus of Rs.2,603,405.

2.1.1 Analytical Review

- (i) The Surplus of Rs.7,095,770 was obtained by 09 Agrarian Service Committees in the year under review and compared to that in the previous year, surplus of 08 Agrarian Service Committees was Rs.4,322,922 and a deficit of Rs.127,587 in one Agrarian Service committee, as the total surplus was Rs.4,195,335. Accordingly, there was a Rs.2,900,435 surplus increment. This growth was mainly due to the surplus of Maharagama, Homagama, Kesbewa and Kolonnawa Agrarian Services. It was also due to the donation income of Rs.one million and Rs.0.8 million respectively received to the Homagama and Kolonnawa Agrarian Service Committees for withdrawing from the cases of proceedings of reclamation of paddy land without the written permission of the Commissioner of Agrarian Development and the service fee income for entering land into the land registry of Maharagama and Kesbewa Agrarian Service Committees.
- (ii) The primary role of the Agrarian Service Committees is to sell agricultural goods including fertilizers, agrochemicals, seeds and plants, agricultural equipment and such that total sales of all 09 Agrarian Service Committees for the year under review was Rs.35,678,090. Further the total gross profit was Rs.3,059,825, such that annual sales value of one Agrarian Service Committee was Rs.3,964,232 and the average gross profit was Rs.339,980.

- (iii) According to the submitted financial statements, the financial position of the 09 Agrarian Service Committees as on 31 December of the year under review is given below.

Financial Assets	Rs.

Current Assets	72,603,997
Non-current Assets	44,034,421

	116,638,418
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Total Liabilities	

Current Liabilities	58,012,242
Long Term Loan Value	7,874,299
Accumulated Fund Value (Net Assets)	50,751,877

	116,638,418
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3. Operating Review

3.1 Money Management

Audit Observations	Comments of the Management	Recommendation
05 bank current accounts of 03 Agrarian Service Committees were inactive and the balance of those accounts was Rs.485,120 as on 31 December 2022.	Answers not submitted.	If there is no need to continue to maintain inactive bank accounts, arrange to close those accounts on formal approval.

3.2

Information on deposit accounts and non-utilization of effective investment

Information about the balances in the current accounts maintained by 09 Agrarian Service Committees and 08 Agrarian Banks in a government commercial bank as at 31 December 2022 and the investments made as savings and fixed deposits in government banks are given below.

Institute	Savings Deposits	Fixed Deposits	Current Deposits	Total
	Rs.	Rs.	Rs.	Rs.
Committees	3,546,003	23,349,580	54,475,288	81,370,871
Agrarian Banks	14,888,944	9,873,108	1,764,285	26,526,337

Total	----- 18,434,947 =====	----- 33,222,688 =====	----- 56,239,573 =====	----- 107,897,208 =====
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Audit Observations	Comments of the Management	Recommendation
(a) The balance in the current accounts which do not earn any interest income is Rs.56,239,573.	Answers not submitted.	Funds should be invested in a more effective way.
(b) The sum of money invested in savings deposits earning low interest income is Rs.18,434,947. Accordingly, it was observed that the money was not used effectively.	Answers not submitted.	Funds should be invested in a more effective way.

3.3 Identified Losses

Audit Observations	Comments of the Management	Recommendation
(a) Although the said amount should be recovered from the said officer related to the financial frauds of Rs.483,664 were done by the agricultural research production assistant of the Kosgama Agrarian Bank, even though more than 08 years have passed since this financial fraud was discovered, the proceedings had not been carried out against the officer according to provisions of paragraph 29.4 of Chapter XLVIII of Group 11 of the Establishment Code of Democratic Socialist Republic of Sri Lanka.	That an initial investigation has been done and that the accounts will be corrected after receiving the money.	Regarding the financial frauds identified by the internal audit reports, action should be taken against the responsible parties according to the Establishment Code.
(b) According to the reports of the Kotte Agrarian Service Committee, Rs.81,623 of the stock shortage of Rs.764,838 was recovered from the responsible officers, but the remaining stock	Answers not submitted.	Regarding the financial frauds identified by the internal audit reports, action should be taken against the responsible parties according to the

shortage of Rs.683,215 had not been recovered. Furthermore, regarding the financial fraud of Rs.564,741 that had occurred in the Agrarian Bank, the money was not recovered from the responsible officers in accordance with the 104 of the Financial Regulations, and only the value of the financial fraud was stated as Rs.444,741 in the accounts.

Establishment Code.

3.4 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
(a) In relation to the 09 Agrarian Service Committees, the amount of paddy land that can be cultivated in the Maha season of 2022 is 11,516 acres, but the amount of cultivated paddy land was 9,227 acres. Out of fallow paddy land, the amount of paddy land that can be cultivated is 1887 acres, of which the amount of paddy land cultivated with paddy is 348 acres. Accordingly as a whole 3,828 acres out of the paddy land that can be cultivated paddy had not been cultivated.	Answers not submitted.	Plans should be prepared and implemented to utilize the amount of paddy land that can be cultivated for rice cultivation.
(b) According to the 2021 and 2022 financial statements of the Padukka Agrarian Service Committee, although the cost of organic fertilizer production was Rs.89,946 and Rs.1,040 respectively, no organic fertilizer sales revenue was observed. According to the 2021 and 2022 financial statements of Kasbewa Agrarian Service Committee, the sales revenue of organic fertilizers is Rs.19,600 and Rs.424,900 respectively, and the related sales costs are Rs.15,260 and Rs.631,748 respectively, so the gross profit was Rs.4,340 and a huge trade loss of Rs.206,848 was observed. But the expected production cost and actual	Answers not submitted.	An organic fertilizer production account should be prepared so that revenue and expenditure can be identified separately.

cost of one unit could not be identified as the information was not documented to identify the estimated and actual production cost of an organic fertilizer production unit. However, a pack of 20kg had been sold at Rs.700 each based on market price.

- (c) Although Rs.100,043 and Rs.519,787 were spent for the development of the garden in 03 Agrarian Service Committees for the years 2021 and 2022, the garden income was only Rs.16,483 and Rs.50,060 respectively and Rs.8,160 and Rs.21,150 had been spent for the development of the garden for the years 2021 and 2022 by the Homagama Agrarian Service Committee, as no garden income had been collected, the garden income had taken a minimum value compared to the expenditure incurred for the development of the garden.
- Answers not submitted. Expenses should be incurred on formal plans so as to get benefits commensurate with the expenditure.
- (d) The building and land located in the Kotte Agrarian Service Center which was established in 1977, had not been taken over to the Department of Agrarian Development yet. Also, the land belonging to the Kahathuduwa Agrarian Service Center was temporarily assigned for the police station, and although letters were exchanged between the relevant parties on various instances, that land had not been returned to the Kahathuduwa Agrarian Service Center. Furthermore, the proof of 30 perches of the land used as the playground of Kahathuduwa Junior College had been handed over to the Executive Secretary of the Kahathuduwa Agrarian Service Committee for the construction of the Kahathuduwa Agrarian Center, but that land had not been taken over until the end of the year under review.
- That the requests submitted but not assigned. The land belonging to the center should be taken over.

(e)	Kesbewa Agrarian Service Center has 11 outlets and although the lease period of the lease agreements had been ended in the years 2020 and 2021, arrangements had not been taken to establish new lease agreements or extend the existing agreement between the Agrarian Service Center and the lessees. In the meeting of the Agrarian Service Committee held on 29 February 2021, although it was decided to increase the rent of the shops, the farmers' organizations running the shops did not agree to that decision, so 09 shops had also defaulted on the monthly rent agreed to be paid by the old lease agreement. As of 31 December 2022, the rent arrears of Rs.860,064 were observed and due to the absence of a new lease agreement, if the tenants leave the stores without paying the rent arrears, it may be problematic to collect the rent arrears.	Answers submitted.	not	Actions should be taken to increase the income of the committee.
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3.5 Operating Inefficiencies

Audit Observations	Comments of the Management	Recommendation	
(a) 160 receivable balances of Rs.11,221,226 and 198 payable balances of Rs.58,012,240 had not been settled in 09 Agrarian Service Committees, which have been brought forward from many years.	Answers submitted.	not	Accounts receivable balances should be settled or written off after obtaining formal approval and accounts payable balances should be settled or adjusted to accumulated fund.
(b) 136 farmer complaints had been received in 03 Agrarian Service Committees for the year 2022, out of which 23 complaints, and 28 complaints out of 196 complaints received in 02 Agrarian Service Committees in year 2021 could not be resolved.	Answers submitted.	not	Necessary steps should be taken to resolve farmers' complaints.

3.6 Transactions of Contentious Nature

Audit Observations	Comments of the Management	Recommendation
<p>In the year 2015, the paddy land called Madamgaha Kumbura in the Kolonnawa Agrarian service area and in the year 2018 the paddy land called Kosgaha Kumbura in the Homagama Agrarian service area had been filled with soil without the written permission of the Commissioner of Agrarian Development. At that time and further, due to the fact that the Department of Agricultural Development had not taken sufficient measures to stop the reclamation of those paddy lands, the two paddy lands in question and the adjacent paddy fields had become unable to cultivate rice ever again. While the situation was the same, Rs.1,800,000 was received as a donation to Agrarian service Committees for the two specific paddy lands mentioned at the beginning and the related litigation was withdrawn, in a way that would set a very wrong precedent to support the reclamation of paddy lands.</p>	<p>Answers not submitted.</p>	<p>Necessary arrangements should be made to avoid setting a wrong precedent taking on proceedings initiated on the construction of buildings without the written permission of the Commissioner of Agrarian Development without taken forward and taken compensation by the Assistant Commissioner of Agrarian Development in charge of Colombo District.</p>

3.7 Idled or Underutilized Property, Plant and Equipment

Audit Observations	Comments of the Management	Recommendation
<p>(a) 08 tractors in 06 Agrarian Service Committees were lying idled without use.</p>	<p>Answers not submitted.</p>	<p>If the assets are in a condition that cannot be used, they should be disposed of or if they can be repaired and used, they should also be repaired and used.</p>
<p>(b) Rs.22,465 worth of agrochemicals from an Agrarian Service Committee, 1302 liters of organic liquid fertilizer and 852 liters of bio-liquid fertilizer which were received for distribution to the farmers of 05 Agrarian Service Committees had expired and could not be used.</p>	<p>That the approval has been requested to cut off.</p>	<p>If the liquid fertilizer cannot be distributed among the farmers before the expiry date, arrangements should be made to immediately send back it to the liquid fertilizer supply company through the Fertilizer Secretariat office.</p>

3.8 Human Resource Management

Audit Observations	Comments of the Management	Recommendation
There are 311 Agricultural Production Assistant domains related to 09 Agrarian Service Committees, out of which there were 56 Agricultural Production Assistant vacancies for 56 domains in 08 Agrarian Service Committees. Also, there are 21 domains and 21 approved agricultural research and production assistants related to the Kotte Agrarian Service Committee, but 5 acres, 5 rood total paddy lands that can be cultivated paddy belong to the said Agrarian Service Committee had been belonged to only one domain.	Answers not submitted.	The number of agricultural research and production assistants required according to the paddy land and other cultivation activities in a domain should be revised or filled vacancies.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observations	Comments of the Management	Recommendation
According to the Agrarian Services Commissioner's Circular No. 107 (Amendment 2) dated 04 May 2010, annual financial statements must be submitted to the Auditor General within three months of the end of the financial year, but the financial statements of Agrarian Banks for the years 2019, 2020, 2021 and 2022 had not been submitted to the Auditor General as of the date of this report.	Answers not submitted.	Circular should be followed.

4.2 Agrarian Banks

Audit Observations	Comments of the Management	Recommendation
(a) 39 debtors who could not recover the loan amount of Rs.887,965 from 04 agrarian banks were referred to the tribunal and Rs.249,315 related to 08 deceased debtors of 02 agrarian banks remained in unrecoverable.	One Agrarian Bank said that the cases are under investigation and the other Agrarian Banks had not been submitted replies.	All necessary actions should be taken to recover the loans.
(b) The balance of the Revolving Fund Control Account of Rs.287,171 and the Revolving Fund Interest Control Account of Rs.689,507 have not been settled and the	That the advice had been asked from district office in this regard.	Sufficient information and documents should be maintained and

interest calculation has been stopped after the year 2010 due to non-recovery of the loan. Also, according to the financial statements, a schedule showing an amount of Rs.689,507 had been submitted in relation to the 66 balances of the debtors related to the revolving fund interest control account. The debtor's ledger accounts or files had not been submitted to the audit to verify the outstanding debt balances mentioned in that schedule.

arrangements should be made for giving and collecting loans.

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| (c) | As per 4.4.1 (iii) of Circular No. 04/2012 dated February 29, 2012 of the Department of Agrarian Development, shares cannot be sold and shares can be transferred. In case of death of the shareholder, the successor of the shares should be nominated by the shareholder. It was also informed that the successor can be changed during the lifetime of the shareholder. However, due to the death of persons currently in the list of shareholders of 04 Agrarian banks, although it was stated to the audit that there are inactive shareholders, such shareholders had not been identified and properly updated. Due to non-nomination of successors to transfer these shares, the balances were not settled and activated, and the accounts had been maintained by calculating interest thereon. | The Kahathuduwa Agrarian Service Committee has informed that it will be investigated in the future and the Kosgama Agrarian Service Committee has informed that it will be done after the completion of the investigation and other Agrarian Service Committee has not submitted any answers. | Circular instructions should be followed. |
| (d) | Shareholders' balance summary, depositors' balance summary, farmer's organization balance summary, women's farmer organization balance summary, children's deposit balance summary and the number of shares and depositors and values of shares and deposits under small groups balances summary and balance sheets to ensure accuracy of interest calculation included under financial statements had not been submitted in 07 agrarian banks. Also, although the relevant interest which was calculated had reported through journal entries, the related journal vouchers were not submitted to the audit. | The Kahathuduwa Agrarian Service Committee has informed that they will look into it in the future and the Kosgama Agrarian Service Committee has informed that they have not yet received instructions for maintaining individual balances and submitting journal vouchers, and the other Agrarian Service Committee has not submitted answers. | Single balance lists should be maintained in relation to control account balances. |