

13 Agrarian Service Committees of Polonnaruwa District - 2022

1. Audit Opinion

- 1.1 The audit of the financial statements of the 13 Agrarian Service Committees in Polonnaruwa 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 flow statements for the year then ended and notes to the financial statements, including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No.19 of 2018 and Section 58(1) of the Agrarian Development Act, No. 46 of 2000. My comments and observations which I consider should be report to Parliament appear in this report.
- 1.2 The audit reports had been issued relating to 13 Agrarian Service Committees in Polonnaruwa District as at 11 July 2023 for the year 2022 and in those reports, the opinion of 02 committees had been disclaimed and the opinion of 11 committees had been expressed a qualified opinion. The following are the material deficiencies due to the expression of opinion.

1.3. Financial Statements

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

	Audit Observations	Comments of the Management	Recommendation
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(a)	According to the facts of the Agrarian Services Commissioner's Circular No. 15/2016 dated 7 February 2017, while preparing and presenting the financial statements, the Public Sector Accounting Standards of Sri Lanka must be applied, but the 13 Agrarian Service Committees had mentioned in the Certificate of Accounts and Financial Statements of the year under review, that the financial statements had prepared and presented according to the Sri Lanka Accounting Standards.	That will be corrected in the future	Should be submitted according to Sri Lanka Public Sector Accounting Standards
(b)	Considering the requirements of Sri Lanka Public Sector Accounting Standard No.7, 07 Agrarian Service Committees had not been disclosed the cost, useful life time and accumulated depreciation at the beginning and end of the period of each property plant and equipment class in the financial statements.	It will be corrected	Action should be taken according to Sri Lanka Public Sector Accounting Standards.

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| (c) | The depreciation policy followed by 02 Agrarian Service Commissions at the time of purchase and sale of assets had not been disclosed with the financial statements. | It will be corrected in future. | Action should be taken according to Sri Lanka Public Sector Accounting Standards. |
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1.3.2 Accounting Deficiencies

Audit Observations -----	Comments of the Management -----	Recommendation -----
(a) Although 08 Committees should be identified the increase of the cost of property, plant and equipment by taking into account the cost recognition criteria specified in Sri Lanka Public Sector Accounting Standard No. 7, but assets acquisitions amounting Rs.5,574,207 had not been accounted as non-current assets.	That will be corrected in the coming year.	Should be done according to the requirement of Sri Lanka Public Sector Accounting Standard No. 7 .
(b) The cost of the organic fertilizer shredding machines provided by the Provincial Agriculture Department to 08 Agrarian Service Committees had not been identified and included in the financial statements.	The related information will be obtained and corrected in the coming year	Should be done according to the requirement of Sri Lanka Public Sector Accounting Standard No. 7 .
(c) The fixed deposit interest income amounting Rs.747,968 of 06 Agrarian Service Committees had not been accounted for the year under review.	That will be corrected in the future	Transactions and events should be recognized and accounted, when they happen.
(d) Considering the requirement of Sri Lanka Public Sector Accounting Standard No.9, all losses related to stocks should be recognized as an expense in the period in which those losses occur, but the cost amounting Rs.1,328,937 of stocks in 06 Committees which had expired in the previous years had not been accounted accordingly.	According to the letter No.7/5/12/ii dated 01 June 2022 of the Commissioner General of Agrarian Development, the expired stocks have been written off from the books.	Financial statements should be prepared and presented on accrual basis

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| (e) | As introduced by Sri Lanka Public Sector Accounting Standard No.2, the value of the net cash flow generated by the operations of a firm should be represented under operating activities, but the cash flows generated by the operations of 04 Committees amounting to Rs.2,633,353 had been represented under investment activities. | That will be corrected in the future | Should be done considering the requirement of Sri Lanka Public Sector Accounting Standard No.2. |
| (f) | The Manampitiya Agrarian Service Committee had debited the purchase account without debiting the return creditor account of seeds and agricultural chemicals with a total value of Rs.1,891,509. | That was corrected in the year 2023 | The return account should be credited and the creditor account debited. |
| (g) | The cost and annual depreciation of the building and the safe in consideration of the cost identification criteria set out in Sri Lanka Public Sector Accounting Standard No.07 by the Siripura Agrarian Service Committee. | That will be corrected in the future | Should be complying with Sri Lanka Public Sector Accounting Standards. |
| (h) | The Siripura Agrarian Service Committee had not been represented the project retention amount of Rs.89,605 in the financial statements. | That will be corrected in the future | Commitments, liabilities should be reflected in the financial statements. |
| (i) | The current assets amounting Rs.335,576 and the current liabilities amounting Rs.134,230 had been over accounted by the Medirigiya Agrarian Service Committee at the end of the accounting year. | That will be corrected in the future | Should be done according to the circular instructions. |
| (j) | Medirigiriya Agrarian Service Committee had been represented the total value of Rs.1,382,023 payments arising from operational activities under financial activities. | That will be corrected in the future | Should be done according to the Sri Lanka Public Sector Accounting Standards. |
| (k) | Although the financial statements revealed that all incomes are recognized on accrual accounting basis by Medirigiriya Agrarian Service Committee, but the fixed deposit interest income from cash amounting Rs.992,253 had been represented in the financial statements. The related bank statements and interest rates were not submitted to the audit to identify the interest income earned during the reporting period. | That will be corrected in the future | Transactions and events should be recognized and accounted at the time of occur. |

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| (l) | Although the net value of office equipment of Bakamoona Agricultural Service Committee as on 31 December 2021 was Rs.562,780, the balance as on 01 January 2022 was Rs.421,149 and the net value of computer equipment as on 31 December 2021 was Rs.105,287, at the beginning of the year under review it had been also taken to the financial statements as Rs.131,754. | That will be corrected in the future | The adjustments that caused the change should be presented. |
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1.3.3 Un-reconciled Control Accounts or Reports

Audit Observations -----	Comments of the Management -----	Recommendation -----
There was a discrepancy of Rs.637,212 between the balance according to the financial statements and the balance according to the corresponding reports in relation to 02 ledger accounts by 02 committees.	That will be corrected in the future	The values presented with the financial statements should be the same as in the corresponding reports.

1.3.4 Transactions without Authority

Audit Observations -----	Comments of the Management -----	Recommendation -----
Payment had been made for the 113 payment vouchers totaling Rs.3,375,505 without certification by the Certifying Officer (Divisional Officer/ Executive Secretary) for the month of December 2022 in Bakamoona Agrarian Service Committee.	That the payment has been certified by the Executive Secretary by now.	Should be done according to the Financial Regulation 138.

1.3.5 Lack of Written Evidence for Audit

Audit Observations -----	Comments of the Management -----	Recommendation -----
Due to the non-availability of confirmation letters, balance confirmations and related schedules for the total value of Rs.77,732,586 stated in the financial	It will be corrected	Evidence must be presented.

statements under 06 accounting subjects related to 06 Agrarian Service Committees, they could not be satisfactorily verified in the audit.

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

The following observations are made.

Reference to Laws, Rules and regulations etc.	Non-compliance	Comment of the Management	Recommendation
(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulation 104, 105	The Manampitiya Agrarian Service Committee had not dealt with the shortage of paddy stock of Rs.67,832 as per the financial regulations.	It has been informed that an investigation will be conducted and further action will be taken.	Should be done according to the financial regulations.
(b) Circulars and letters of the Commissioner General of Agrarian Development -----			
(i) Circular No. 0439/93 (7/3/5/4) dated 3 August 1992	Rs.164,546 which should be sent to the Commissioner General of Agricultural Development as 20 percent of the acre tax income by the Manampitiya Agrarian Service Committee has not been settled from 22 years.	That will be dealt according to the letter No. 7/5/12/II dated 01 June 2022 of the Commissioner of Agricultural Services.	Should be done according to the circular instructions.
(ii) Agrarian Bank Circular No.4/2012 dated 29 February 2012 Section 4.1	Loan payments of Rs.1,591,575 in Bakamoona Agricultural Bank in the year 2022 had not been approved by the Chairman of the Credit Control Committee and had not been certified by the Regional Officer of Agrarian Services / Secretary of the Credit Control Committee.	That will be corrected in future.	Arrangements should be made to obtain the relevant approvals.

- (iii) Letter of the Commissioner General of Agrarian Service, No. 005/4/054 dated 24 April 2019
- In 224 cases of 03 Agrarian Banks, money had been retained in hand exceeding the maximum money limit that could be retained in the Agrarian Bank.
- That happened due to various reasons and such cases will be recorded in the future
- Should be done according to the circular instructions

2 Financial Review

2.1 Financial results

According to the financial statements presented, a surplus of Rs.17,651,062 had been earned by 12 Agrarian Service Committees whilst one Agrarian Service Committee had earned a deficit totaling Rs.25,945 in the year 2022. As for the last year, a surplus of Rs.15,540,216 had been earned by 12 Agrarian Services Committees whilst one Agrarian Services Committee had earned a deficit totaling Rs.549,288.

2.2 Analytical Review

2.2.1 Increase

Compared to the previous year, the financial results of 07 committees in the reviewed year had an increase of Rs. 7,560,041. Increase in sales revenue of subsidized urea fertilizer and the increase in fixed deposit interest income had been caused mainly for this increase.

2.2.2 Decline

A decline of Rs.4,925,851 in the total value of 06 committees was also observed. The decline in financial results was mainly caused by the decrease in other fertilizer income, the decrease in seeds sales income, the increase in salary and allowance expenses, and the increase in stationery expenses.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation -----	Comment of the Management -----	Recommendation -----
(a)	Agricultural chemicals amounting Rs.1,132,873 purchased in previous years in 03 Agrarian Service Committees had been expired.	It has been informed that work is being done to correct it.	Should be dealt with suitably regarding expired stock.

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| (b) | Rs.291,279 due from four officers had not been collected due to misuse of fertilizers in 02 Committees. | That the said money has been recovered through disciplined action regarding relevant officers | Should be done according to financial regulation provisions. |
| (c) | Necessary arrangements had not been made to pay Rs.3,064,375 to the concerned farmers allocated for the payment of crop damage in the 2018 yala season in Manampitiya Agrarian Services Committee. | That the farmers are identified and processed for payment or returned. | It should be settled soon. |
| (d) | Due to non-delivery of rice for paddy which was purchased and delivered to a mill owner by Madirigiriya Agricultural Service Committee in the year 2005, the amount to be recovered from that mill owner was Rs.1,563,278. | The accused mill owner is dead and the case is closed. That the instructions of the Commissioner of Agricultural Services dated 7/5/12/ii and 01 June 2022 has been followed. | Arrangements should be made to settle. |
| (e) | Vouchers containing incorrect information were prepared and overpayments of Rs.176,000 were made to the contractor for a building repair work in Hingurakgoda Agrarian Services Committee. | That the overpaid amount is being charged to the Agricultural Service Commission in installments. | Matters mentioned in financial regulation 105 should be followed. |
| (f) | There were 03 asset items with a total net value of Rs.247,876 that had been removed from operational use in the Pulastigama Agrarian Services Committee from about 5 years. | That it will be abused in the future | Should be done appropriately. |
| (g) | In the year 2021, Galamuna Agrarian Services Committee had not utilized 5000kg of fertilizer, produced at a cost of Rs.149,445. | That could not be sold due to insufficient demand of compost | Should be done according to the circular instructions. |
| (h) | A machine used for threshing paddy which was not included in the inventory records by the Galamuna Agrarian Services Committee was decaying. | That the inventory is documented and will be taken action for destroy. | Should be done appropriately. |

3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observation -----	Comment of the Management -----	Recommendation -----
The 30 items of equipment used for soil research, which had been purchased by Giritale Agrarian Services Committee at a cost of Rs.486,018 to start a soil research laboratory, remained idle for about 18 years.	That requests have been made from the head office to training for research work	Should be taken action to utilize resources efficiently.

4. Agrarian Banks

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) According to the Circular No. 4/2012 dated 29 February 2012 of the Commissioner General of Agrarian Development, overdue loans amounting to Rs.132,236,768 had to be recovered from 3064 farmers.	That the contracts of 07 debtors are missing That the 42 persons have been paid That the testing have been done of 206 persons That 72 persons have been presented to the court That 315 persons have been referred to the Tribunal That will be charged as installments from 100 persons. That will be charged against the guarantor of one debtor	Arrangements should be made to settle.
(b) The 293 accounts of 06 Agrarian Banks where "Peramaga" children's savings deposits are maintained in the Agrarian Bank Pilot Project had been limited to their initial deposit.	That will be taken action to promote savings.	A formal program should be implemented to promote savings.
(c) Due to missing of loan agreements related to outstanding loans of Rs.1,097,023 in 05 agrarian banks, no further work had not been done regarding recovery.	That it has been forwarded to the head office to take further action	Arrangements should be made to settle the relevant balances.
(d) Out of the 4,588 regular depositors of the Pulastigama Agrarian Bank Pilot Project, it was revealed that 3,663 depositors remain in the initial deposit amount in the savings accounts maintained by them.	That will be taken action to promote savings.	Attention should be made for savings promotion.