

56 Agrarian Services Committees in Kurunegala District - 2023

1. Audit Opinion

1.1 The audit of the financial statements of 56 Agrarian Services Committees in Kurunegala District for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance and the cash flow statement for the year then ended, notes to the financial statements and including material accounting policy information 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 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 In relation to the year 2023, audit reports had been issued in relation to 56 agricultural service committees in Kurunegala district, and in those reports, the opinion of 10 committees had been disclaimed and the 46 committees had been expressed a qualified opinion. The material deficiencies that caused to it are shown below.

1.3 Financial Statements

1.3.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) 77 acres, 01 roods, 37 perches of land located in 55 Agricultural Service Committees and about 40 machines in 08 Agricultural Service Committees, a cupboard, a safe, 02 committee buildings, 02 fertilizer stores, a quarter, 02 shops and value of. 23,484kg of fertilisers had not been assessed and accounted.	That the action will be taken to unclaimed lands to taken over and the land and other assets to be assessed and the values are accounted.	All assets belonging to the committee should be assessed and accounted.
(b) The income of Rs.663,010 in 09 Agricultural Service Committees, the current assets of Rs.370,327 in 07 Committees and the current liabilities of Rs.663,402 in 02 Committees were also written off from the accounts during the year under review.	That the action will be taken to made relevant adjustments and corrections.	While preparing the financial statements, arrangements should be made to account for all income, expenditure, assets and liabilities relating to the year under review.

- (c) Expenses of Rs.351,648 incurred in relation to the previous year of 12 Agricultural Service Committees were accounted as expenses of the reviewed year. That the relevant adjustments and corrections will be made. Financial statements should be prepared accurately adjusting the expenditure related to the accounting year.
- (d) The income of Rs.1,236,908 in 09 Agricultural Service Committees, the expenses of Rs.584,202 in 23 Committees, and the current assets of Rs.1,192,283 in 11 Committees had been over accounted in the year under review and the income of Rs.1,957,773 in 15 Agricultural Service Committees, the expenses of Rs. 30,788,958 in 09 Agricultural Service Committees, the current assets of Rs. 89,662,499 in 19 Agricultural Service Committees and the current liabilities of Rs.111,297 in 03 Agricultural Service Committees had been under accounted in the year under review. That the relevant adjustments and corrections will be made. When preparing the financial statements, the income and expenses related to the accounting year should be fully and accurately accounted.
- (e) Stock items of Rs.457,845 that were accounted in 04 Committees and 12 units of fixed assets worth Rs.5,186,538 that were accounted in 09 Committees and 05 types of stock were not physically present. That instructions will be given to the relevant committees to remove these assets that are not physically visible from the accounts. A formal examination should be carried out to find out the reasons and make appropriate adjustments in the financial statements accordingly.
- (f) Although an amount of Rs.2,718,870 had been paid to 14 Agricultural Service Committees and Agricultural Banks for the installation of computer software system in the year under review, due to non-installation of those systems That it will be corrected after accounted as the advance payment. should be accounted as advances paid.

during the year under review, the amount paid should be accounted as advance, but it was cut off to the Accumulated Fund and Bank Fund.

1.3.2 Unreconciled Control Accounts or Reports

Audit Observation	Comments of the Management	Recommendation
There was a total difference of Rs.36,859,840 when compared with the balances shown in the financial statements and corresponding reports relating to 96 accounting subjects of 24 Agricultural Service Committees.	That the balances will be re-checked and corrected.	Unreconciled balances should be compared and the correct values should be adjusted to the financial statements.

1.3.3 Transactions without Authority

Audit Observation	Comments of the Management	Recommendation
(a) Formal approval had not been obtained for 542 journal entries worth Rs.438,266,722 in 17 Agricultural Service Committees. Journal entries had not been prepared in 04 committees and journal entries had been prepared only for the opening balance of one committee.	That the action will be taken to rectify after the formal approval obtained.	Journal entries should be entered with formal approval and journal entries should be applied to opening balances and adjustments.
(b) 04 Agricultural Service Committees had been written off 04 debit balances worth Rs.908,593 and 02 credit balances worth Rs.384,537 to the accumulated fund without formal approval.	That the action will be taken to rectify after the formal approval obtained.	Formal approval should be obtained for write-offs and adjustments to the accumulated fund.

1.3.4 Suspense Accounts

Audit Observation	Comments of the Management	Recommendation
As of the last day of the year under review, the outstanding suspense accounts credit and debit balances of 03 Agricultural Service Committees for a period between 18 and 19 years were Rs.504,820 and Rs.25,654 respectively.	That it will be checked and corrected.	Account balances should be corrected.

1.3.5 Lack of Written Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
There were no evidences as at the last day of the year under review in 50 Agrarian Service Committees such as detailed notes, valuation reports, balance confirmation certificates, loan relating asset documents and title certificates totaling Rs.302,528,373 of 198 assets subjects and totaling Rs.232,877,312 of 104 liabilities subjects shown in the financial statements. Therefore those accounting subjects could not be satisfactorily vouched in audit.	That the more number of officers who have no knowledge of accounting have been employed and financial statements have been prepared and that the actions will be taken to reduce the deficiencies in the future.	Relevant documents should be maintained to verify account balances.

1.4 Non-compliances to Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and regulations	Non-compliance	Comment of the Management	Recommendation
(a) Agrarian Development Act, No. 46 of 2000			
(i) Section 14 (3)	Land inheritance amount of Rs. 1,664,575 of 11 Agrarian Service Committees which was deposited by tenant farmers to be paid to land owners relating to disputed fields of was retained in the committee fund without making payments or making	Due to the existence of disputes, that it will be arranged to promptly deposit the inheritance money in the court cannot be paid to the tenant farmers.	Action should be taken as per the provisions of Agrarian Development Act.

depositions in court by the 31 December of the year under review.

(ii) Section 52 Agrarian Committees should prepare an agricultural program for their jurisdiction of the Agricultural Committee before each season, but 50 Committees had not been done so. That the implementation plan and budget estimate have been prepared and submitted with approval. Actions should be taken as per the provisions of Agrarian Development Act.

(iii) Section 53 (4) Although land registers should be revised every 03 years, not any Agrarian Service Committees have done so. That revisions and corrections are carried out and updated on the orders of the Commissioner General of Agricultural Development. Actions should be taken as per the provisions of Agrarian Development Act.

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

(i) Financial Regulation 137 Although all payment vouchers should be approved by the Chairman of the Committee who is the authorized officer when the services, works or supplies are completed, vouchers of Rs.2,035,099 had not been approved in 111 cases of 06 Agricultural Service Committees. That necessary instructions will be given and corrections will be made. Should be done according to Financial Regulations.

(ii) Financial Regulation 237 (b) When paying for the warehouse supplies, it should be certified that the goods have been received and entered in the relevant inventory book, but 09 Agrarian Service Committees had not done according to the financial regulation provisions for purchases of Rs.2,703,072 in the year under review. That the actions will be taken to corrected the deficiencies. Should be done according to Financial Regulations.

(iii) Financial Regulation 264	Although the receiver should confirm that he received the gross amount for every payment mentioned in the voucher, 19 Agrarian Service Committees had not been done so in relation to the payments of 266 payment vouchers amounting Rs.118,132,779 in the year under review	That the actions will be taken to corrected the deficiencies.	Should be done according to Financial Regulations
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(iv) Financial Regulation 880 and Section 09 of part II of the Public Finance Circular No. 01/2020 dated 28 August 2020	Although all officers authorized to act in respect of money or stock should be give bond, Agricultural Research and Production Assistants in 51 Agricultural Service Committees had not been bailed the bond and Agricultural Research and Production Assistant Officers had been exempted from depositing security for not complying with the said money regulation in the Circular No. DAD/KNG/EST/5/ARPA/17 dated 13 February 2023 of the Commissioner of Agricultural Development.	That according to the Circular, Agricultural Research and Production Assistants have been exempted from bail.	Should take actions according to Financial Regulation 880 and Public Finance Circular No. 01/2020.
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(c) **Circulars of the Commissioner General of Agrarian Services**

(i) Circular No. 322 dated 22 May 1988	The Land inheritance tax must be paid to the relevant people within 14 days from the date received and if this money has not been accepted within a year and if there are several owners or owner is not clear the inheritance money should be deposited in the court. However in 02 Agrarian Service Committees an amount of Rs. 1,638,418 bought forward for several	That in the future it will be done according to the circular.	Should be done according to circular provisions.
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years had not been dealt with in the same procedure in respect of land owner's inheritance money brought forward.

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| (ii) | Paragraph 5.6(i) of the Circular No.04/2012 dated 29 February 2012 | Since the Agricultural Bank is a unit of the Agricultural Committee, all the accounts related to the Agricultural Bank should be included in the annual accounts of the Agricultural Services Committee and prepare consolidated financial statements, but all 56 committees had not done so. | That the arrangements will be made as per the instructions of the Commissioner General of Agricultural Services. Should be done according to circular provisions. |
| (iii) | Circular No. 7/2014 (107 correction III) dated 22 August 2014 | Although the maximum amount that can be kept by the committee clerk daily is Rs.10,000, in 885 cases of 20 Agricultural Service Committees, more money had been kept in hand. | That the instructions have been given to be done correctly. Should be done according to circular provisions. |
| (iv) | Circular No. 3/2016 dated 09 February 2016 | Although the Agricultural Research and Production Assistants at least four times a year, the Executive Secretary at least once a year should be inspected the Farmers' Organizations but the Committee did not have proof that 276 active farmer organizations under the jurisdiction of 08 Agricultural Service Committees have been dealt with in the same way. | That the relevant officers will be informed. Should be done according to circular provisions. |
| (v) | Letter No. 7/12/5/4 dated 22 October 2019 and Circular No. 09/2020 dated 08 October 2020 | Transactions of all registered farmer organizations should be done through a savings account in the respective Agrarian Bank, but out of 684 farmer organizations, 195 | Farmer organizations are reluctant to deposit money in the Agricultural Bank due to practical difficulties. Should be done according to circular provisions. |

organizations had not been opened accounts in the Agrarian Bank.

02. Financial Review

2.1 Financial results

According to the presented financial statements for the year 2023, 56 Agrarian Service Committees have recorded a net surplus of Rs.29,659,057 whilst 56 Agrarian Banks have showed a surplus totaling Rs. 23,195,296. Correspondingly the year 2022, a net surplus of Rs.22,235,476 in the 56 Agricultural Service Committees and a surplus totaling Rs. 14,306,012 in the 56 Agrarian Service Banks.

2.1.1 Analytical Review

- i. The Surplus of Rs. 30,415,250 was obtained by 52 Agrarian Service Committees in the year under review and compared to that in the previous year, surplus of 51 Agrarian Service Committees was Rs. 23,250,111 . Accordingly, there was a Rs. 7,165,139 surplus increment. The deficit incurred by 04 Committees was Rs. 756,193 in the year under review, compared to which the deficiency of 05 Committees in the previous year was Rs. 1,014,635.
- ii. In the reviewed year, the total sales income of the 56 Agricultural Service Committees related to the sale of fertilizers, agrochemicals, seeds, seedlings, agricultural equipment and other agricultural goods was Rs.210,691,361 and the total gross profit was Rs.7,661,969. Accordingly, the total gross profit rate of the 56 Agricultural Service Committees was 4 percent.
- iii. According to the submitted financial statements, the financial status of the 56 Agricultural Service Committees as on December 31 of the year under review is given below.

		Rs.

➤ Accumulated Fund Value (Net Assets)	=	379,473,683
➤ Long Term Loan Amount	=	30,362,741
➤ Current Liabilities	=	1,315,828,830
➤ Total Assets		
• Current Assets	=	1,470,834,614
• Non-current Assets	=	254,830,640

03. Operating Review

3.1 Investing the Excess Money

Audit Observation	Comments of the Management	Recommendation
As on December 31, 2023, 56 Agricultural Service Committees and 56 Agricultural Banks had retained a total of Rs.91,606,818 in current accounts of 02 Government Commercial Banks without effective investment and a total amount of Rs.102,467,018 had been invested in savings deposits earning low interest income. Accordingly, it was observed that the surplus money was not invested effectively.	That the funds are used in an effective investment way.	Funds should be invested into more effective investment channels.

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs.771,097 to be recovered for the stock shortages identified in Mawathagama Agricultural Service Committee for the year 2020 had not been recovered from the relevant parties in the year under review.	That the investigations are ongoing.	The money due should be collected promptly in accordance with the financial regulations.
(b) Actions had not been taken to recover Rs.137,706 due in connection with the financial fraud committed by an Agricultural Research Production Assistant (R.P.N.A.) officer of the Rambe Agricultural Service Committee prior to the year 1999 by misusing agricultural bank funds and acreage tax funds during the year under review.	That the further action will be taken	The money due should be collected promptly in accordance with the financial regulations.

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| (c) | The total deficiency of Rs.2,954,156 made by the transactions made in the period from 01 January 2020 to 05 July 2021 in Nathgane Agrarian Bank due to not balancing the cash book correctly, misuse of cheques while issuing loans, unaccounted loan amount and related interest etc. which had not been collected and 06 receipt books had been missed and the transactions related to those receipts had not been recorded. | That the investigations are ongoing. | The money due should be collected promptly in accordance with the financial regulations. |
| (d) | A financial fraud of Rs.3,310,450 discovered by checking the ledger of Tarana Agrarian Bank resulted in a further balance of Rs.2,523,592, which had not been recovered during the year under review. | That the investigations are ongoing. | The money due should be collected promptly in accordance with the financial regulations. |

3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Out of 358 farmer organizations established in 11 Agricultural Service Committees, 17 organizations remained inactive and 32 out of 117 'Sithamu' female farmer organizations established were not active.	That instructions have been given to keep inactive societies active.	A program should be developed and implemented to maintain farmer organizations at a functional level.
(b) The creditor balances of Rs.7,892,993 in 13 Agricultural Service Committees, which have been brought forward as debts to be paid for a long time related to the acquisition of assets, had not been settled and most of the assets related to these loan balances had not shown physically in the committee.	That the instructions will be taken from the head office and settled.	Steps should be taken to settle the balances of debts and to check and regularize the reasons for the physical non-existence of assets.

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| (c) | As of the year under review, the amount of A grade fallow paddy that can be used for paddy cultivation in 22 Agricultural Service Committees is about 384 acres 38 roods 13 perches and In 11 Agricultural Service Committees, the amount of B grade fallow fields that can be used for crops other than paddy is about 146 acres, 03 roods, 28 perches and the amount of fallow fields belonging to category C of 19 Agricultural Service Committees was about 725 acres, 01 roods, 07 perches. These fallow fields had not been used for paddy cultivation or other crops during the year under review. | That the related activities will be carried out for the harvesting of fallow fields. | According to the provisions of the Agricultural Development Act, every paddy land should be used for cultivation. |
| (d) | Although fingerprint machines have been purchased at a cost of Rs.3,039,400 each at a cost of Rs.54,275 each in the year 2020 to record the arrival and departure of officers The machines were switched off in 11 Agricultural Service Committees and due to the inability to get printouts from these machines, it was not possible to get the desired results. | That the machines will be brought back to working condition. | Finger print machines should be used for verification of arrival and departure according to the circular. |
| (e) | From 13 Agricultural Service Committees, a total of Rs.341,326 audit fees were to be charged for the period from 2002 to 2022. | That Rs.14,400 have been paid in the year 2024. | Arrangements should be made to pay the outstanding audit fees. |

3.4 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The 30 Agrarian Service Committees had not been taken steps to collect 266 receivable balances amounting to Rs.30,062,249 and to settle 277 payable balances amounting to Rs.25,543,033 brought forward from many years.	That the action will be taken to settle.	Receivable and payable balances that persist in the financial statements continuously should be settled promptly.

3.5 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Management	Recommendation
<p>In 28 Agricultural Service Committees, 03 tractors and implements, 06 grass crushers, 03 grass cutters, 03 warehouses, drip irrigation system, 21 planters, 15 weeding machines, 03 seed planting machines, 14 plant chambers and net houses, 03 wall safes, a floor scale, 03 outlets, 06 machinery, 05 fingerprint machines, 05 computers, 02 fax machines, a television, a water tank, 03 multi choppers, 04 seed drills machines, a mechanical planter, a photocopy machine, 5,524 agricultural implements, dairy building and equipment, tab machine related to weather unit, mushroom seed production plant and related equipment, bakery and related equipment and 139 water meters are remained idled and underutilized.</p>	<p>that will be disposed of or restored to working condition.</p>	<p>Action should be made to fully utilize usable assets and equipment and properly dispose other assets and equipment.</p>

3.6 Project or Delays of Capital Works

Audit Observation	Comments of the Management	Recommendation
<p>5,495 minor irrigation tanks, 937 embankments and 362 canals and sidewalls in 51 Agricultural Service Committees were presented during the year under review for 583 priority projects, but only 25 projects were implemented.</p>	<p>That the works will be done on allocated provisions.</p>	<p>Arrangements should be made to update irrigation industry and irrigation works and construction works.</p>

04. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Although the 56 Agricultural Service Committees had prepared their own action plan for the year under review, the related progress reports had not been prepared.</p>	<p>That a performance report containing annual progress will be prepared.</p>	<p>Quarterly progress reports should be prepared.</p>

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
According to the budget estimates prepared by the 56 committees for the year under review, there were variations from 01 percent to 9,058 percent in relation to 755 subjects of income and expenditure. Due to this, the budget document, which is used as a control method had not been used as an effective control method by the committees.	That budget variations occur due to uncontrollable causes.	Budget estimation should be used as an effective control strategy.

05. Agrarian Banks

Audit Observation	Comments of the Management	Recommendation
(a) The Ganewatta Agricultural Bank had been paid Rs.140,849 as penalty interest related to the year under review due to late payment of interest on capital money.	That due to non-availability of working capital, settlement could not be made within the stipulated time.	Interest payments should be made in due time.
(b) Formal approval had not been obtained for 77 journal entries worth Rs.119,705,130 in 06 agricultural banks.	That will be corrected.	Formal approval should be obtained for journal entries.
(c) 02 Agricultural Banks had not been maintained ledger accounts for share deposits worth Rs.1,229,550.	That the documents will be updated.	Ledger accounts should be maintained properly.
(d) 29,021 out of 43,055 share deposit accounts in 18 agricultural banks, 14,563 out of 25,007 general deposit accounts in 13 agricultural banks, 1,631 out of 2,809 children's deposit accounts in 29 agricultural banks, 1,341 out of 3,644 farmer organization deposit accounts in 19 agricultural banks, 877 out of 1,746 small group deposit accounts in 22 agricultural banks and 133 out of 492 women's deposit accounts in 15	That the steps will be taken to increase deposits.	A program should be developed and implemented to maintain accounts in working condition.

agricultural banks had been limited to initial deposits without active status.

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| (e) | During the review of the transactions made in one month in 31 agricultural banks, the average daily bank transactions between 01 and 14 were at a very low level. | That the less ability to attract customers under less technical facilities | A program should be implemented to grow transactions. |
| (f) | From the beginning of 50 agricultural banks till the year 2021, Rs. 107,580,997 loans had not recovered from 2,999 debtors. | That will be collected. | According to the circular, arrangements should be made to collect the loan amount within the stipulated time. |