

Head 118 - Ministry of Agriculture

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ministry of Agriculture for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 these financial statements of the Ministry was issued to the Chief Accounting on 26 July 2022 in terms of Section 11(1) of the National Audit Act, No.19 of 2018. The Annual Detailed Management Audit Report relevant to the Ministry was issued to the Chief Accounting Officer on 26 September 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is presented to the Parliament 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.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements of the Ministry of Agriculture give a true and fair view of the financial position of the Ministry of Agriculture as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matter described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, under those audit standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. 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 Chief Accounting Officer for the Financial Statements

The Chief Accounting Officer is 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 Ministry 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 Chief Accounting Officer shall ensure that an effective internal control system for the financial control exists in the Ministry 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 judgment and maintain professional scepticism 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 Ministry'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 Chief 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 on the financial statements of the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Income Received

The following observations are made.

Audit Observation	Comments of the Chief Accounting Office	Recommendation
-----	-----	-----
<p>(a) Although the deficit income of the Paddy Purchasing Programme of the Government was Rs. 439,123,225 as per the previous year accounts, an additional amount of Rs.47,019,598 had been shown as deficit income in the final accounts of the year under review. Accordingly, it was observed that there has been no maintenance of reliable records of deficit income in the Paddy Purchasing Programme.</p>	<p>The Paddy Purchasing Programme of the Government had been implemented in 20 districts for 2018/19 Maha season. The outstanding deficit income as at 2021/12/31 had been included in the financial statements as Rs. 439,123,225.00 based on the information received from the District Secretariats where the programme was implemented. However, the District Secretariat had been reported that there was a further deficit income of Rs. 47,019,598.00 and it had been reported in the financial statements.</p>	<p>The value of the deficit income should be calculated and included in the financial statements.</p>
<p>(b) Action had not been taken to recover the sum of income Rs. 347,311,945 including the Rs. 138,204,923 of</p>	<p>Rs. 81,244,687 had been charged out of this deficit income in the year 2022 and the further Rs. 266,057,258 income to be collected.</p>	<p>The reasons for not charging should be found and the deficit income should be recovered promptly.</p>

deficit income of the aforesaid Paddy Purchasing Programme of previous year and Rs. 209,107,022 of deficit income in the year under review. The charging of those balances was controversial.

1.6.2 Property Plant and Equipment

The following observations are made

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
-----	-----	-----
(a) The 15 vehicles worth Rs. 51,500,000 belonging to other State Ministries and Departments which is used by the Ministry of Agriculture had been included in the statement of non-financial assets without taking over the ownership.	The arrangement is currently being made to take over the ownership of 14 vehicles to this ministry. The action should be taken to return one vehicle to the institute where it is owned. Accordingly, the adjustments would be made to the account.	Arrangement should be made to take over the ownership of vehicles belonging to other state Ministries and Departments.
(b) The 14 vehicles which were registered under the ministry worth Rs. 77,500,000 nevertheless not owned by the ministry had been represented as non-financial assets in the financial statements.	The value of the handed over vehicles out of the unused 14 vehicles registered under the Ministry, would be take-off from the assets. As well as future action has being taken to handing over the other vehicles.	The value of the vehicles not owned by the ministry should be take-off from the financial statements.
(c) The 04 vehicles worth Rs. 8,360,000 which owned to the ministry and used by the ministry had not been included in the non-financial assets of the financial statement of the ministry.	The action will be taken to include the values in the future.	Vehicles should be accounted as non-financial assets

(d) Although the Ministry should provide the opportunity to register the vehicle in the name of a transferee ministry when transferring vehicles to another ministry as per the Assets Management Circular No.2/2017 dated 21 December 2017 of the Deputy Secretary of the Treasury, the 39 vehicles worth Rs.259,300,000 used by other Ministries and Departments which registered under the Ministry of Agriculture had been included in the financial statements of this Ministry. It is further observed that certain vehicles are being kept as non-financial assets of the Ministry as the Cabinet Ministry due to the problematic nature of handing over certain vehicles to those state ministries based on the fact that the scope of the state ministry is being revised from time to time and the state ministers are being abolished and merged back into these ministries.

Out of these vehicles, 15 vehicles had been registered in the name of other ministries/institutes and arrangements are being made to take over or re-hand over those vehicles. The 24 vehicles were the vehicles, which assigned to the ministries which were under this ministry. It is problematic to assign vehicles to those state ministries specifically due to the fact that the scope of the state ministry is being revised from time to time and the state ministers are being abolished and merged back into these ministries. Therefore, the said vehicles had been kept as non-financial assets of the ministry and assigned to the state ministry.

Vehicles used by the ministries and departments which registered under the ministry should be assigned to those entities and removed from the financial statements.

2. Financial Review

2.1 Revenue Management

Audit Observation

Although the estimated revenue to be collected under the Paddy Purchasing Programme of the Government which is under Revenue Code No.2003.07.00

Comments of the Chief Accounting Officer

Since this programme was implemented in 20 districts in the previous year, revenue estimates had been prepared based on that.

Recommendation

Estimated programmes related to the year should be implemented and efforts should be made to collect income.

during the year under review is Rs.1,500,000,000, the revenue that could be collected was Rs. 453,206,587 which is 30 per cent of the estimated income.

However, the value of the prepared income estimate was differed numerically compared to the collected income since the Department of Financial Development had been arranged to implement the relevant programme in only 4 districts and allocated provisions to the district secretaries accordingly.

2.2 Management of Expenditure

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
----- (a) The provisions totaled to Rs. 278,000,000 of 03 capital expenditure objects had been totally remained save due to the procurement activities had not been initiated at the beginning of the year.	----- Restrictions had been made on the action as per Cabinet Memorandum No. 21/1520/320/154 dated 31 August 2021 for the review of expenditure. The milk processing machinery related to the project had been released by the Sri Lanka Customs without changing taxes on a provincial basis and the report had not been presented regarding the taxes to be paid after performing the related calculations secondarily in the year 2021. Furthermore, no payment had been made for the related administrative expenses due to the incomplete selection of a project committee.	----- Annual estimates should be prepared in accordance with Financial Regulations 50

- (b) Provision ranging from 13 to 99 percent of the net allocation in 20 capital expenditure objects and 16 recurrent expenditure objects had been remained save due to not making accurate forecasts when preparing estimates. The total net provision approved for aforesaid capital and recurrent expenditure objects was Rs. 8,395,977,000 and out of that, a sum of Rs. 4,540,336,242 i.e. 54 percent had been remained.
- Savings on travel restrictions due to Covid pandemic situation. Restrictions had been made on the basis of the decrease in the number of officers eligible to receive the uniform allowance and as per the Cabinet memorandum No. 21/1520/320/154 dated 31 August 2021 for the review of expenditure. Expenditure had been controlled according to the Cabinet memorandum No. 21/1520/320/154 dated 31 August 2021 for the review of expenditure.
- Annual estimates should be prepared in accordance with Financial Regulations 50

2.3 Non-compliance with Laws, Rules and Regulations

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

Observation

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Chief Accounting Officer	Recommendation
-----	-----	-----	-----
(a) Assets Management Circular No 02/2017 dated 21 December 2017 issued by Deputy Secretary of Treasury.	The action should be taken to formally handed over to the institution that have registered ownership or, to register under the name of their own institution with the agreement of the institution that have registered ownership regarding the vehicles which has being used	The 16 vehicles are currently being taken over. Since it is not possible to take over the vehicle numbered JZ – 5973 belonging to the World Food and Agriculture Organization, Arrangement will be made to re-hand over after the suitable vehicle is assigned to	Vehicles used without registration should be registered in the name of the Ministry with the agreement of the registered owner.

without registered ownership. However, there are 25 vehicles are in use by the Ministry of Agriculture which were under the ownership of other institutions that have not been taken over or re-handed over as per the circular.

the officer who is currently that vehicle has been assigned. Vehicle bearing KJ – 6251 and KJ – 2652 had been attached as official vehicles and the Ministry of Public Security has not agreed to transfer the ownership of those vehicles to the Ministry. Therefore, Arrangement will be made to hand over them again after suitable vehicles are available to be assigned to those officers. There is no need to take over the 4 vehicles that were under this ministry as they belong to government ministries. Arrangements are to be made to take over 02 vehicles in the near future.

(b) F.R. 1646 of Financial Regulation of Democratic Socialist Republic of Sri Lanka

Although the original copies of the monthly summary of vehicle travels and running charts should be forwarded to the Auditor General before 15th day of the following month, monthly summary of the 13 official vehicles related to the year 2021 used between months of April to December and running charts and monthly summary the 26 pool

The submission of running charts and monthly summaries had been delayed due to the imposition of travel restrictions and the summoning officers and drivers to the office were limited because of Corona pandemic situation of the country in year 2021 and at the same time, there had been delays due to the fact that, it should have been checked the

Daily running charts should be submitted to the Auditor General.

vehicles related to the year 2021 used between months of March to December had not been submitted for audit by 07 April 2022. running charts and monthly summaries of the year 2022.

2.4 Incurring of Liabilities and Commitments

The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Recommendation
(a) The net allocation of Rs.1,000,000,000 for capital expenditure objects of the ministry that had been allocated in the year under review, had been fully utilized during the year. However, even there was no provision for that expenditure objects, it had been entered in to liabilities and commitments of Rs. 3,250,000,000.	The debt had been generated for the compensation of expenditure object of 118/2/3/43/2202 that was supposed to be paid to the farmers. Although the allocation had been requested according to the due values, the Department of National Budget had been given only an amount of Rs, 1000 million for the year 2021. Accordingly, respective values have to be shown as credits in excess of provisions of the account.	According to the F.R.94 liabilities and commitments should not be incurred beyond the provisions.
(b) Liabilities amounting Rs. 283,686 relating to the year under review had not been included in the Statement of commitments and liabilities in the financial statements Note no. (iii)	The reason for not being able to enter the values as liabilities mentioned in the query is because of the delay of submission of the relevant bills. However the action will be taken to include the correct figures in the account as much as possible.	All liabilities and commitments relating to the year under review should be included in the financial statements.

- | | | | |
|-----|---|---|--|
| (c) | <p>The allocation of Rs. 1,514 million and Rs.1,000 million had been allocated in the year 2020 and 2021 respectively in order to provide compensation for crop damages under the expenditure description 118-2-3-43-2202, and the said total provision value had been given to the Agricultural and Agrarian Insurance Board in the respective years. The Ministry of Agriculture had not followed up on the aforesaid utilization of money including registered farmers who affected by crop damage and the farmers who compensation paid. As well as Rs. 3,250,000,000 had been accounted on a letter issued by the Director General of the Board of Agriculture without obtaining any written evidence for the occurrence of a liability for compensation Payments.</p> | <p>The coordination related to the 118/2/3/43/2202 expenditure objects had been done by the Agricultural Development Division, and the relevant information is contained in the relevant file. Since the payment of compensation should be done by the Agricultural and Agrarian Insurance Board, release of money should be done by that institute and the payment had been made following all the regulations because it is a government owned institution.</p> | <p>Written evidence regarding the compensation for crop damage should be obtained.</p> |
|-----|---|---|--|

2.5 Issuance and settlement of advances

Audit Observation

Comments of Chief Accounting Officer

Recommendation

According to Finance Regulation 371 (5), the ad-hoc imprest should be settled within 10 days after the completion of the work, nevertheless 23 officers of the Ministry of Agriculture had taken a period of time from 02 days to 106 days to settle the ad-hoc imprest of Rs.892,540 which had been obtained on 53 occasions.

All the officers are constantly informed and notifications have been made through internal circulars In this regard. However, the relevant officers were also informed to give reasons for the delay in the audit inquiry. Further, proper monitoring will be done on this matter and instructions will be given to settle the related advances promptly and will be act with accordingly.

It should be act as per the provisions of F.R. 371 (5).

2.6 Losses and Waivers

Audit Observation

Comments of the Chief Accounting officer

Recommendation

Advance loan balances of Rs. 44,596 of 2 public officers had been written off during the year 2021 and the details of those loan balances had not been included in note (i) of the statement of losses and waivers in the financial statement.

The figure was not included by omission.

Arrangements should be made to include in the statement of losses and Waivers.

3. Operational Review

3.1 Management Deficiencies

3.1.1 Termination of the lease agreement of the building received by the Ministry of Agriculture

The following observations are made regarding the cancellation of lease agreement number 2178 between the private company that owns the building rented for the Ministry of Agriculture and the Ministry of Agriculture and, the release of the refundable deposit of Rs.63 million.

Audit Observation

Comments of Chief Accounting Officer

Recommendation

- | | | | |
|-----|---|--|--|
| (a) | A clause on how the lessee and lessor could terminate the agreement if necessary during the lease term had not been included in the lease agreement. Due to that shortcoming, the property leased for 5 years had lost the opportunity to reduce the amount of rent in proportion to the remaining lease period at the time of handing over | A short period of time is not enough to terminate the lease by vacating the premises after formal notice prior to the lease term. It had been taken some time to move all the officers of the ministry to their respective departments and to take over the Govijana Mandiraya building from the General Secretary of the Parliament and establish the Ministry of | Responsibility should be taken not to incur such expenses. |
|-----|---|--|--|

in the fourth year and A rent amount of Rs.310,939,139 had been paid for the period of the building was not in use. That expenditure was observed as an uneconomical expenditure.

Agriculture and convert it to the office environment in a suitable manner. Further, the necessary arrangements were made to create the conditions necessary for the transfer of the unimpeded enjoyment of the rent premises during the said period. However, all arrangements were made according to the clauses of the agreement.

- (b) The officials of the engineering department of the ministry and the officials of the assessment department have conducted an inspection during March and April 2021 regarding the damage caused to the leased building by the lessee during the lease period, Although the lessor has been informed to participate in the said assessment, the lessor has refused to participate for the assessment. Disputes have arisen between the parties regarding damages due to the fact that the agreement did not include conditions that a suitable technical institute should be called for a damage report with the participation of both parties when leaving the leased property, the officials of the Ministry of Agriculture assessed the damage to Rs. 12,710,236 and the leasing company assessed and prepared the reports as Rs. 28,250,056 to damage of the building. As a result, there had been formed a risk of over-liability of Rs.15,539,820 as per a valuation report prepared

Even though the DPJ was informed to cooperate with the Ministry in carrying out the inspection in order to identify the damage done to the building before handing over the lease agreement and carry out the necessary actions to hand it over to a suitable agency to calculate the damage, the company did not participate at that time. Therefore, the engineering division of the ministry identified the damage and prepared a rough estimate for it. Since the DPJ had also later calculated the damage and submitted a report, there was a conflict between the two reports. Therefore, the damage done to this building has been calculated and forwarded to the Government Valuation Department to provide a report. Accordingly, as payments are made for the damage to the building according to the report provided by the Valuation Department, it is not possible to conclude on the risk of overpayment based on the reports provided by the

Responsibility should be taken not to incur such noneconomic expenses.

unilaterally by the lessee without any participation of the Ministry of Agriculture.

Ministry or DPJ.

(c) According to the terms of the agreement No. II, the lessor shall arrange to give the refundable deposit amount of Rs. 63 million to the lessee within one month after the end of the agreement and the delivery of the leased property. However, at the every time of the lessee handed over the leased property and acted to terminate the agreement, the lessor opposed that and acted inconsistently with the basic terms of the agreement. Therefore it had not been possible to obtain the deposit.

As per the relevant agreement, after handing over the clear enjoyment of the property, the deposit should be returned to the lessee. Nevertheless, DPJ did not pay the deposit amount of 63 million rupees as agreed and on several occasions DPJ was informed in writing and they also responded. However the facts presented by the said party cannot be accepted and the Ministry has to enter into legal proceedings to recover the deposit amount. Accordingly, the Attorney General's Department has sent an interlocutory injunction to the DPJ Institute and is proceeding further.

Arrangements should be made to recover the deposit amount.

3.1.2 Outstanding Balances in Advance Accounts of Government Officials

The following observations are made.

Audit observation	Comments of the chief accounting officer	Recommendation
-----	-----	-----
(a) A difference of Rs.1,598 was observed between the advance balance list of the government officers and the balance as per the reconciliation statement in the financial year 2020 and the difference of that balance in the year under review was Rs.1610. Nevertheless steps had not been taken to correct this error.	Action will be taken to adjust and rectify relevant error in this year.	The reasons for the difference should be found and necessary adjustments should be made.

- | | | | |
|-----|--|---|---------------------------------------|
| (b) | Even though the advance should be fully recovered in the relevant financial year within 10 months from the date of issue according to Public Administrative Circulars 26/2015 and 23/2020, the special advance balances of Rs.16,000 given to 4 officers assigned to the Kilinochchi District Secretariat in the year 2020 had not been recovered or at least had not been commence to recovered even by the end of the year under review. | This balance of December 2020 has been settled to the State Ministry of Agriculture and even later adjusted to that installment received to the account, the individual balances have not been correctly adjusted by omission. Corresponding corrections will be made in this year. | Loan installment should be recovered. |
| (c) | Even though the festival advance should be recovered within 08 months from the date of issue according to the Public Administrative Circular 21/2015, the sum of Rs. 70,000 given to 07 officers assigned to the district secretariats in the month of April 2021 had not been recovered during the financial year under review. | The loan installment receipts of two officers out of the non-recovered festival advance loan balances given to the district secretariats have been sent to the State Ministry of Paddy and Grain in the year 2021 and those loan installments have been adjusted to the Advance “B” account through the monthly account summaries of April 2022. The letters have been forwarded to the district and divisional secretaries to check and collect the remaining balances of the remaining 5 officers, and action is being taken. | Loan installment should be recovered. |
| (d) | Any charge had not been recovered during the year under review out of the balance of Rs. 14,850 which was to be recovered in the year 2021 from the festival advance and special advance given to 07 officers assigned to the district secretariats in the year 2020. | The outstanding loan installments of Rs. 2,400.00 which was given to the Colombo District Secretariat included in these balances have been fully recovered in March of this year. In order to settle the remaining loan balances, letters have been sent to the relevant District and Divisional Secretariats. | Debt should be recovered. |

Meanwhile, arrangements will be made to collect the loan installments in the future.

- (e) Total value of 127,960 which was charged by mistake from the 27 permanent officers in the service of district secretariats attached to the Ministry of Agriculture, had been presented as the balances to be settled to other departments and ministries and, account has been prepared without making any arrangements for repayment to those officers.
- Action will be taken to repayment of the excess loan balance of Rs.1,600.00 of 02 officers working in the Ministry of Agriculture out of those 27 officers in future. Moreover, the loan installments of 12 officers attached to the Ministry of Agriculture who were transferred to the Paddy and Grains State Ministry is Rs. 54,813.00 and the said loan installments have been settled to the State Ministry of Agriculture through the April account summary. The overdue loan installments of the remaining officers will be settled after comparing and verifying with the accounts maintained by the District Secretariat Offices and Divisional Secretariat Offices where those officers work.
- Balances should be promptly settled.
- (f) A person who worked as a driver of a minister who is not in the ministry's permanent task force had left the service without paying any premium of Rs.5,000 of festival advance. The action had not been taken to recover the balance of arrears which has being come from over 3 years from responsible parties.
- Mr. A.P. Gamage, the driver who worked in the ministerial staff of the Ministry of Agriculture has received a festival advance in the year 2018, From that, a balance of Rs. 5,000.00 should be charged further and regular notifications have been made to recover the relevant debt. And efforts are being made to recover the debt accordingly.
- Actions should be done in accordance with the provisions of paragraph 4.3 of Chapter xxiv of the Establishments Code.

4. Human resource management

Audit Observation

Even though the positions of 12 senior level, 5 tertiary level, 48 secondary level and 13 primary level in the Ministry of Agriculture were vacant, the action had not been taken to recruit those positions or revise the approved number of employees on time.

Comments of Chief Accounting Officer

Appointing authorities have been informed regarding the filling up of senior level vacancies and the need to fill up tertiary level vacancies has been communicated to the Director General of Integrated Services. Officers will be assigned to the respective posts in that manner. There were 200 vacancies at the secondary level as on 31 December 2021 and out of that majority (152) were vacancies in the post of Development Officer. Accordingly, those vacancies have been completed with the recruitment of new development officers in the year 2022. Further, there are 31 related service position vacancies and a recommendation is to be sent to the Director General of Management Services regarding the suppression of those positions. Even though the recruitment should be done on casual basis for the available primary level posts of office worker service and driver service new admission cannot be made at this time. As well as, the recruitment procedure for the post of Library Assistant has been directed for approval.

Recommendation

Steps should be taken to fill up the vacancies or to revise the number of employees as the current requirement.