

33 Agrarian Services Committees in Galle District - 2022

1. Audit Opinion

- 1.1 The audit of the financial statements of 33 Agrarian Services Committees in Galle District for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, the statement of financial performance and the cash flow statement for the year then ended, notes to the financial statements and 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 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.

As of 12 October 2023, audit reports for the year 2022 in relation to 33 Agrarian Service Committees in Galle District had been issued and, the material deficiencies that had been caused to the expressed a qualified opinion for all 33 Committees in those reports are as follows.

1.2 Financial Statements

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

The following facts were observed.

Audit Observation	Comments of the Management	Recommendation
(a) As the Agrarian Bank is a unit of the Agrarian Services Committee, consolidated financial statements of all 33 committees had not been prepared.	Accounts had not been prepared in accordance with the instructions and format given in the letters of 75/12 ඩ.ව. General and dated 11 January 2022 of the Commissioner General of Agrarian Development.	Actions should be taken as per the 5.6(1) of Circular No.04/2012 and dated 29 February 2012 Commissioner General of Agrarian Development.
(b) The 14 Agrarian Service Committees followed the Sri Lankan Public Sector Accounting Standards and this had not been disclosed under the accounting policies.	That agreed and action will be taken to correct it in the future.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.
(c) The basis of depreciation on fixed assets which purchased and disposed during the current year had not been disclosed under the	That agreed and action will be taken to correct it in the future.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

accounting policies by 17 Agrarian Service Committees.

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| (d) | The depreciation methods used in relation to each class of property plant and equipment in the financial statements had not been disclosed under the accounting policies by 06 Agrarian Service Committees according to paragraph 86 (b) of Sri Lanka Public Sector Accounting Standard No.07. | That agreed and action will be taken to correct it in the future. | Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards. |
| (e) | Although the Koggala Agrarian Service Committee had stated under the accounting policies that the acreage tax is accounted on the accrual basis, the accounts had been kept on the cash basis. | Answers have not been provided. | Accounting policies followed for preparation of financial statements should be accurately disclosed. |

1.2.2 Accounting Deficiencies

The following facts were observed.

Audit Observation	Comments of the Management	Recommendation
(a) The value of fixed assets i.e. land and buildings of 33 Agrarian Service Committees, 28 computers, 14 printers and their accessories in 14 Committees, 04 lawn mowers in 02 Committees, 02 computer desks, 02 computer chairs, 04 steel cupboards and 02 office chairs in an Agrarian Service Committee had not been assessed and accounted.	That agreed and actions will be taken to include their values in the annual financial statements.	Land and buildings should be assessed and the values shown in the financial statements.
(b) Although the machinery and vehicles, buildings, greenhouses, plumbing fixtures, agricultural wells listed under non-current assets in the statement of	That agreed and actions will be taken to correct it in the future.	Non-physically existence assets should be removed from the financial statements and fully

financial position of 09 Agrarian Service Committees were depreciated, those assets of 03 Committees had been stated as Rs.1. The assets of 05 committees had been stated as zero and the Sibawra tractor of the Koggala Agrarian Service Committee and the temporary buildings of the Elpitiya Agrarian Service Committee did not physically exist.

depreciated physical assets should be revaluated and adjusted in the accounts.

- (c) Rs.980,000 expenses of tea cultivation in 03 committees and Rs.181,339 expenses of cinnamon cultivation in 02 committees listed under non-current assets in the statement of financial position for many years, Rs.25,000 and Rs.30,000 for coconut and pineapple cultivation respectively in Opata Agrarian Services Committee had been spent. These assets had not been adjusted in the accounts as biological assets and Rs.45,800 spent on tea cultivation had been shown as an expense of the year in the statement of financial performance.
- That agreed and actions will be taken to correct it in the future.
- Biological assets should be disclosed in the financial statements according to Sri Lanka Public Sector Accounting Standards.
- (d) Rs.500,000 had been paid to the Walahanduwa Agrarian Service Committee on the recommendation of Assistant Commissioner of Agrarian Development in Galle District by a company which selling land in parts for possible damage to a canal during the sale of land in parts. The amount received for the maintenance of the canal in the upcoming years was stated in the statement of financial performance as income for the year under review.
- That agreed.
- The amount received for the maintenance of canals should be accounted in the deposit account.

1.2.3 Un-reconciled Control Accounts or Records

Audit Observation	Comments of the Management	Recommendation
There was a total of Rs.88,529,312 discrepancies in the balances between the financial statements and the corresponding reports inq relation to 05 accounting subjects of 14 Agrarian Service Committees.	That it will be corrected in the future.	Account un-reconciliations should be corrected.

1.2.4 Suspense Accounts

Audit Observation	Comments of the Management	Recommendation
The suspense account debit balance of Rs.151,442 in 05 Agrarian Service Committees and the suspense account credit balance of Rs.23,459 in 03 Agrarian Service Committees from the year 2002 to the year 2022 had not been settled.	That it will be corrected in the future.	Suspense account balances should be settled promptly.

1.2.5 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
There had no evidences such as detailed records, valuation reports, balance confirmation, loan registers, fixed asset registers and title certificates related to assets of Rs.11,594,226 in 14 Agrarian Service Committees and, no evidences such as loan registers, balance confirmations, detailed notes, forms of origination, responsible persons and age analysis related to liabilities of Rs.8,648,121 in relation to 20 Agrarian Service Committees and, therefore those subjects of accounts could not be satisfactorily examined during the audit.	That agreed.	Title deeds, fixed asset registers, loss and waivers registers, board of survey reports, balance confirmation letters, schedules, forms of origination, responsible persons and other confirmation evidences should be submitted to the audit.

1.3 Non-compliance with Laws, Rules, Regulations and Management decisions etc.

The following facts were observed.

Reference to Non-Compliance Laws, Rules and Regulations etc.	Comments of the Management	Recommendation	
(a) Agrarian Development Act No.46 of 2000			
(i) Section 51 (1)	Although the Commissioner General of Agrarian Development should act to establish an Agrarian Development Council in each area, the 32 Agrarian Service Committees had not done accordingly.	Since the orders have not been made to establish an Agrarian Development Council under Section 51(1) of the Agrarian Development Act No.46 of 2000, that an Agrarian Development Council has not been established	The provisions of the Agrarian Development Act should be followed.
(ii) Section 53(1)	A register of Agricultural lands within the area of authority of 05 Agrarian Service Committees had not been prepared, amended and revised and certified by the Commissioner General.	That it will be checked and done in the future.	The provisions of the Agrarian Development Act should be followed.
(iii) Section 53(4)(a)	Although every registers of the committee should be checked and certified by the Commissioner General every 03 years, it had not been certified accordingly in 11 Agrarian service committees.	That it will be checked and done in the future.	The provisions of the Agrarian Development Act should be followed.
(iv) Section 56(1)	Although the acreage tax for each	That the legal action will be taken against farmers	The provisions of the Agrarian

	Agricultural land should be collected before 31 March of each year, there had an outstanding acreage tax balance of Rs.1,024,824 by the end of the year under review in the 09 Agrarian Service Committees.	who do not pay taxes.	Development Act should be followed.
(v)	Sections 56(3) and 56(4)	Legal action had not been taken against the farmers who default to pay the arrears of 05 Agrarian Service Committees.	That the legal actions will be taken against farmers who do not pay taxes.
			The provisions of the Agrarian Development Act should be followed.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i)	Financial Regulation 104	Action had not been taken regarding the amount of Rs.97,405 stolen with the safe in the Keradewala Agrarian Service Committee in the year 2007 according to the provisions of the financial regulations.	Comments have not been made.
			Financial Regulations should be followed.
(ii)	Financial Regulation 104	Action had not been taken according to the provisions of the financial regulations regarding the Rs.2,400 of 200 kilograms ERP which had been taken away by thieves on 30 May 2022 in Niyagama Agrarian Service Committee and 450	Comments have not been made.
			Financial Regulations should be followed.

		kilograms of urea received free of charged.		
(iii)	Financial Regulation 110	The registers regarding the loss and waivers of 07 Agrarian Service Committees had not been maintained.	That the action will be taken to maintain the loss and waivers registers.	Financial Regulations should be followed.
(iv)	Financial Regulation 133	There had no internal audit on the functioning of 23 Agrarian Service Committees.	The internal audit of the Department of Agrarian Development is done and the inspection of the Agrarian Service Center for the year 2022 has been done.	Financial Regulations should be followed.
(v)	Financial Regulation 143(2) (f)	Special actions had not been taken to recover the arrears of 12 Agrarian Service Committees.	That the legal actions will be taken against farmers who do not pay taxes.	Financial Regulations should be followed.
(vi)	Financial Regulation 396 (d)	Actions had not been taken according to the financial regulations regarding 10 cheques worth Rs.27,272 issued by 06 Agrarian Service Committees but exceeding 06 months.	Comments have not been made.	Financial Regulations should be followed.
(vii)	Financial Regulations 757 (2) and (4)	Board of Surveys was not conducted in 26 Agrarian Service Committees and copies of those reports had not been submitted to the Auditor General.	Board of Surveys has been conducted in 33 centers and copies will be submitted to the Auditor General as per the instructions of the head office.	Financial Regulations should be followed.

(viii)	Financial Regulation 880 and Circular No.08/2020 dated 25 June 2020 of Department of Agrarian Development	Regional officers and Income Collection officers of 31 Agrarian Service Committees had not deposited the security.	That the action will be taken to obtain security from the officers.	Financial Regulations and Circulars should be followed.
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(c) **Circulars of the Commissioner of Agrarian Services**

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| (i) | Circular No.264 dated 21 October 1986 | Although the vouchers should be prepared and presented up to December of that year 06 months before the end of the year for the room rent receivables within the year and the rent should be collected from various departments who have rented rooms in the committee building, due to 29 Agrarian Service Committees did not act accordingly in the year under review, there was an outstanding room rent balance of Rs.1,997,502 as at the end of the year. | Comments have not been made. | Provisions of the Circulars should be followed. |
| (ii) | Circular No.439/92 dated 03 August 1992 and Circular No.0459/95 dated 07 September 1995 | Although 20 percent of the collected acreage tax revenue should be remitted to the Agrarian Development Fund, 26 Agrarian Service Committees had not remitted Rs.1,989,130 to the said fund at the end of the year under review. | Comments have not been made. | Circulars should be followed. |

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| (iii) | Circular No.03/2016 dated 09 February 2016 | Investigations had not been conducted on the functioning of registered farmer organizations in the area of authority of Ahangama Agrarian Services. | Comments have not been made. | Circulars should be followed. |
| (iv) | Circular No.322 (7/10/4/3) dated 27 May 1988 | Although the land inheritance tax money should be paid to the relevant persons within 14 days from the date of acceptance or the money not accepted within a year should be credited to the Agrarian Service Fund, there was an unsettled inheritance tax balance of Rs.458,113 of 16 Agrarian Service Committees at the end of the year under review. | Comments have not been made. | Circulars should be followed. |
| (v) | Paragraph 4.1.5 of Circular No.7/12/4/5 dated 15 July 2021 | Although it is mandatory for every Agrarian bank to issue Agricultural loans in the relevant year for payment of incentives, Walahanduwa Agrarian Bank had calculated dividends without issuing Agricultural loans in the year under review. | The relevant payments will be made in the future as per the instructions received from the head office. | Provisions of the Circular should be followed. |
| (vi) | Section 20(2) of Circular No.107 dated 16 October 1981 | The secretary of the Opatha Agrarian Service Committee had not checked and signed the stock registers once in a fortnight. | That agreed and action will be taken to check in the future. | Provisions of the Circular should be followed. |

(d) **Circulars of Secretary to the Ministry of Agriculture**

Paragraph 6.4 of NFC/FCGvi Circular No.2016	Although the money received from the sale of subsidized fertilizers at higher prices should be credited to the government's income, 03 Agrarian Service Committees had not remitted Rs.356,224 from the sale of fertilizers to the Ministry of Agriculture.	Comments have not been made.	Circulars should be followed.
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(e) **Circulars of the Secretary to the Treasury**

Circular No.842 dated 19 December 1978	The Urala Agrarian Service Committee had not maintained a fixed asset register.	That Agreed.	Provisions of the Circular should be followed.
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2. Financial Review
2.1 Financial Results

According to the presented financial statements, the total of the 33 Agrarian Service Committees in 2022 was a surplus of Rs.5,667,027, and the total of the 33 Agrarian Banks was a surplus of Rs.11,111,893. In the year 2021, the total of the 33 Agrarian Service Committees was a surplus of Rs.5,458,132 and the total of the 33 Agrarian Banks was a surplus of Rs.11,772,542.

2.1.1 Analytical Review

The following facts were observed.

- (a) The 27 Agrarian Service Committees had a surplus of Rs.6,449,244 in the year under review and correspondingly the surplus of 26 Agrarian Service Committees in the previous year was Rs.6,075,787. Accordingly, there was a growth in the surplus of Rs.373,457. The deficit of 06 Committees in the year under review was Rs.782,217 compared to which the deficit of 07 committees in the previous year was Rs.617,655. Accordingly, although the increase in the deficit was Rs.164,562, the total surplus had increased by Rs.208,895 due to the adjustment of the increase in the surplus.

- (b) The primary role of the Agrarian Service Committees is to sell Agrarian commodities including fertilizers, agrochemicals, seeds and plants, Agrarian equipment and the total sales of the 33 Agrarian Service Committees in relation to the year under review was Rs.24,391,912. As the total gross profit was Rs.2,258,943, the average annual sales value of an Agrarian service committee was Rs.739,148 and the average gross profit was Rs.68,452.
- (c) According to the financial statements presented, the financial position of the 33 Agrarian Service Committees as on 31 December of the year under review is given below.

Total Assets	Rs.
Current assets	126,926,523
Non-current assets	41,671,365
Total liability	
Current liability	94,817,665
Long term debt value	12,469,803
Accumulated Fund Value (Net Assets)	61,310,420

3. Operational Review

3.1 Cash Management

Audit Observation	Comments of the Management	Recommendation
Rs.7,008 in two current accounts of Uragasmanhandiya Agrarian Service Committee and more than Rs.300,000 in a current account of Gonadeniya Agrarian Service Committee had not been taken to increase income by using them in effective investment.	Answers have not been provided.	Actions should be made to increase the income by using the money in a more effective investment.

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
Cash deficiencies of Rs.59,235 identified in 05 Agrarian Service Committees and stock deficiencies of Rs.108,329 identified in 04 Agrarian Service Committees were to be recovered from the respective responsible officers.	That Agreed.	Financial Regulations should be followed.

3.3 Management Inefficiencies

The following facts were observed.

Audit Observation	Comments of the Management	Recommendation
(a) The acquisition of land related to 21 Agrarian Service Centers to the Department of Agrarian Development had not been completed. Due to non-acquisition of the land owned by the Pilana Agrarian Service Center, the ownership of the land remains with the Akmeemana Divisional Secretary. The owner had applied for compensation regarding the ownership of a part of this land which had been received as a donation.	That agreed and the land and buildings where the Agrarian Service Center is located will be taken over and included in the annual financial statements.	The lands owned by the center should be taken over and settled.
(b) The fingerprint machines purchased at the expense of Rs.1,085,700 for the 33 Agrarian Service Committees from committee funds had been installed in February and March 2020. Since the software (app) related to fingerprint machines is not available in the computers, the purpose of purchasing the machines has not been fulfilled by not getting the log reports related to fingerprints even by the year 2023. The machines had started malfunctioning since 02 months from the date of installation of the machines and the purchasing company had informed that one machine could not be repaired out of the 07 machine malfunctions observed by the audit committee. Investigations had been conducted for 03 more machines as per Financial Regulation 104.	That Agreed.	The intended purpose of the purchase should be fulfilled and repairs should be made to the malfunctioning machines.
(c) Agrarian Research Production Assistant of Neluwa Agrarian Service Committee had not calculated the acreage tax in 10 domains and any amount from the acre tax of	Answers have not been provided.	Actions should be taken to recover the arrears of acreage tax promptly.

Rs.164,645 in 11 domains of 02 Agrarian Service Committee i.e. Yakkalamulla and Nagoda had not been recovered. Only Rs.80 had been recovered from Rs.52,800 acreage tax of Niagama Agrarian Service Committee.

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| (d) | Investigations regarding the non-return of two receipt books issued on 13 March 2019 and 31 July 2019 to an Agrarian Research Officer in the Tambalagama domain of Neluva Agrarian Service Committee had not been completed. | Answers have not been provided. | The investigation should be completed and the report should be provided promptly. |
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3.4 Operational Inefficiencies

The following facts were observed.

Audit Observation	Comments of the Management	Recommendation
(a) Action had not been taken to recover the 339 receivable balances amounting to Rs.12,897,612 in 32 Agrarian Service Committees which have been brought forward for many years and to settle the 429 payable balances of Rs.18,621,999 in 33 Agrarian Service Committees.	That Agreed and the balance settlement are taking place in the year 2023.	Balances brought forward from a long term should be settled.
(b) Action had not been taken to use about 129 acres of A-grade fallow fields that can be used for paddy cultivation in 03 Agrarian Service Committees and 615 acres of B-grade fallow fields that can be used for short-term crops other than paddy cultivation for paddy cultivation or other crops cultivation.	Answers have not been provided.	Necessary actions should be taken to utilize fallow paddy land for paddy cultivation or other agricultural activities.

3.5 Fund Underutilization

Audit Observation

Action had not been taken to use total savings account balances of Rs.31,433,951 of 262 registered farmer organizations in 12 Agrarian Service Committees for the purposes of farmer organizations.

Comments of the Management

That Agreed.

Recommendation

The savings of farmers' organizations registered in Agrarian Service Centers should be used for the purposes of those farmers' organizations.

3.6 Idle or Underutilized Property, Plant and Equipment

Audit Observation

The Agricultural outlets of 05 Agrarian Service Committees, the old fertilizer warehouse of Keradewala Agrarian Service Committee, 03 tractor-trailers of Ahangama Agrarian Service Committee, a 04-wheeler tractor machine and a photocopy machine of Weragoda Agrarian Service Committee remained underutilized for many years.

Comments of the Management

That Agreed.

Recommendation

Agricultural outlets and fertilizer warehouses should be taken to effective use immediately and tractors and trailers should be disposed of and photocopy machine should be repaired.

3.7 Human Resource Management

The following facts were observed.

Audit Observation

- (a) When the officers of the 02 Agrarian Service Committees leave the office, although they should be recorded in the departure register and approved by a staff officer, the documents maintained had not been approved by a staff officer.

Comments of the Management

That agreed and necessary action will be taken in the future.

Recommendation

In case of departure of officers, written approval should be obtained.

- (b) The Ahangama Agrarian Service Committee had not properly updated the leave taken in the leave register and had not maintained records relating to half day and late arrivals.

That agreed and necessary action will be taken in the future.

Registers of late arrivals and leave taking should be maintained properly.

4. Accountability and Good Governance
4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
(a) According to 6.5.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, although the financial statements related to a particular year should be submitted for audit within 60 days after the end of the relevant financial year, all the 33 Agrarian Service Committees had submitted the financial statements of the year under review with delay of 01 month 12 days to 05 months 22 days.	Answers had not been provided.	According to 6.5.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the financial statements related to any year should be submitted for audit within 60 days of the end of the relevant financial year.
(b) As per the paragraph 19 of Sri Lanka Public Sector Accounting Standard No.01, regarding who is responsible for the preparation, approval and presentation of the financial statements of an individual entity (government department, statutory body or similar), responsibility for preparing the financial statements is assigned to the entity's chief person (Chief, Chief Executive or Governing Body, Management Board) or similar person. Accordingly, although the income and expenditure estimates of the 33 Agrarian Service Committees had been approved by the committee, the financial statements of the year under review had not been approved by the committee.	Answers had not been provided.	According to Paragraph No.19 of Sri Lanka Public Sector Accounting Standard No.01, the financial statements should be approved by the relevant committee.
(c) All the 33 Agrarian Service Committee had not submitted a statement of net assets/ changes in equity with the financial statements as per Paragraph No.21 of Sri Lanka Public Sector Accounting Standard No.01.	That the accounts have been submitted according to the format presented by the Commissioner General of Agrarian Development.	As per paragraph 21 of Sri Lanka Public Sector Accounting Standard No.01, a statement of net assets/ changes in equity should be presented with the financial statements.

- (d) According to paragraph 53 of Sri Lanka Public Sector Accounting Standards No.01, comparative information for the previous period should be presented for all numerical information reported in the financial statements unless comparative information is differently required or permitted by the Public Sector Accounting Standards. The previous year's information had not been disclosed in the financial performance statement, statement of financial position and statement of changes in equity of the 33 Agrarian banks for the year ended 31 December of the year under review.
- That the accounts have been submitted in the format presented by the Commissioner General of Agrarian Development.
- According to Paragraph No.53 of Sri Lanka Public Sector Accounting Standard No.01, Agrarian Banks should present comparative information for the previous period.

5. Agrarian Banks

The following facts were observed.

Audit Observation	Comments of the Management	Recommendation
(a) Although the maximum period for settling an Agricultural loan issued by an Agrarian bank to a borrower is 06 months as per paragraph 3.4.2 of Agrarian Development Department Circular No.04/2012 dated 29 February 2012, Rs.11,680,224 of 920 borrowers from the agricultural loan issued by 23 Agrarian banks from the year 2000 to December 31 last year had been arrears for a period of 12 months to 22 years.	That related arrears are being recovered by the tribunals and courts.	Premium and interest should be collected as per the Circular.
(b) According to paragraph 3.8.4 of Circular No.04/2012 of Department of Agrarian Development, although it is stated that a project loan of Rs.50,000 should be repaid within a maximum period of 24 months, the payment period of Rs.30,146,949 of 1513 borrowers from the total project loan issued by 29 Agrarian banks during the period from 2003 to 2020 had been exceeded 24 months.	That related arrears are being recovered by the tribunals and courts.	Premium and interest should be collected as per the Circular

- (c) An amount of Rs.10,070,116 of 168 borrowers from the loan amount of Rs.100,000 issued by 13 Agrarian banks from 2016 to 2022 was to be recovered as of 31 December of the year under review.
- That the arrears are being recovered by the tribunals and courts.
- Premium and interest should be collected as per the Circular.