

18 Agrarian Services Committees in Puttalam District - 2022

1. Audit Opinion

- 1.1 The audit of the financial statements of the 18 Agrarian Service Committees in Puttalam 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 18 Agrarian Service Committees in Puttalam District as at 15 June 2023 for the year 2022, a qualified audit opinion was expressed in those reports. The following are the material deficiencies due to the expression of a qualified opinion.

1.3 Financial Statements

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

Audit Observations	Comments of the Management	Recommendation
All accounts related to the Agrarian Bank should be included in the annual accounts of the Agrarian Committee and should be prepared consolidated financial statements, because the Agrarian Bank is an entity under purview of the Agrarian Service Committee, but all the 18 committees had not done so.	Agreed with audit observation.	Should be done according to the 5.6(i) of Circular No. 04/2012 of the Commissioner General of Agrarian Development dated 29 February 2012.

1.3.2 Accounting Deficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
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(a) The value of 23 acres lands, 12 old and new stores, 10 official buildings, 5 quarters, a tissue culture laboratory and a well had not been assessed and accounted in 18 Agrarian Services Committees.	Agree. Since the lands of 12 out of 18 committees have not been transferred to the Department of Agricultural Development, it is not possible to assess and account for the values. Kindly inform that the acquisition of those lands is in progress.	It should be done according the Sri Lanka Public Sector Accounting Standards No.7.
(b) Values of 08 weeding machines, 09 seedling planting machines, 04 seed paddy planting machines, a television and two laptops received by Agrarian Service Centers in the year 2022 under the Climate Smart Irrigation Project of 03 Agrarian Service Committees and the values of 02 computers, 72 plastic chairs, 02 safes, a water filter and 02 web cameras received by 02 Agrarian Service Committees had not been assessed and accounted.	Agree. This stock of equipment has been provided to the Agrarian Service Centers by the CSIAP project. Kindly inform that the values will be taken from the project office and the accounting will be done.	It should be done according the Sri Lanka Public Sector Accounting Standards No 7.

1.3.3 Un-reconciled Control Accounts or Reports

Audit Observations	Comments of the management	Recommendation
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In relation to 25 accounting subjects of 10 Agrarian Service Committees, there were discrepancies in the balance between the financial statements and the corresponding reports totaling Rs.71,684,553.	Agree. Will correct it in preparing the accounts reports for the next year.	Action should be taken to correct accounts incomparables.

1.3.4 Transactions without Authority

Description of transactions without authority	Comments of the Management	Recommendation
Formal approval had not been obtained for 137 journal entries amounting Rs.89,495,858 in 06 Agrarian Service Committees.	Agree. Will give written instructions to the Agrarian Service Committees to obtain formal approval for journal entries from now on.	Journal entries should be submitted with formal approval.

1.3.5 Lack of Written Evidence for Audit

Audit Observations	Comments of the Management	Recommendation
Due to non-availability of evidence such as detailed notes, valuation reports, balance confirmation certificates, loan documents, fixed asset documents, title certificates and creditors age analysis, accounting subjects amounting to Rs.122,220,794 in 18 Agrarian Service Committees could not be satisfactorily vouched in audited.	Agree. Will take action to correct and settle the detailed notes, valuation reports, balance confirmation certificates, loan documents, fixed assets certificates and title certificates.	Action should be taken to submit relevant evidence to verify the balance of assets and liabilities.

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) Agrarian Development Act, No. 46 of 2000			
(i) Section 22	In accordance with the agrarian policies, an acceptable program should be implemented to determine which crops and animals are more suitable for agricultural land in the area in 17 Agrarian Service Committees, but this has not been done.	Agree. Will work according to section 22 from next year.	Should be done according to Agrarian Development Act No. 46 of 2000.

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| (ii) | Section 52 | Agrarian Committees should prepare an agricultural program for their jurisdiction of the Agrarian Committee before each season in the 18 Agrarian Service Committees, but Committee had not been done so. | Agree. Will take action to prepare an agricultural programme for the coming season. | Should be done according to the sections of Agrarian Development Act No. 46 of 2000. |
| (iii) | Section 53(4) | Although agriculture land registers should be revised once every 03 years, but 08 Agrarian Service Committees had not done so. | Agree. Kindly inform that I will act according to the instructions of the Commissioner General of Agrarian Development. | Should be done according to the Agrarian Development Act No. 46 of 2000. |
| (b) | Financial Regulation of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 880 and Section 09 of part II of the Public Finance Circular No. 01/2020 dated 28 August 2020 | In relation to 18 Agrarian Service Committees, all the employees who have been authorized to act on cash or stocks have to keep security, but Agricultural Research and Production Assistants had not been kept security. | According to the letter of the Commissioner General of Agricultural Development No. 7/2/15/3/3 (vii) and dated 23.01.2023, the officers of the Agricultural Research and Production Assistants have been exempted from depositing the security deposit. | Should be done according to Financial Regulation 880 and Public Finance Circular No. 01/2020 |
| (c) | Circulars of the Commissioner General of Agrarian Services
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| (i) | Circular No. 392/94 dated 16 March 1994 | Although the Agrarian Committee should collect the money due from other institutions or individuals immediately, the 09 Agrarian | Agree. In relation to the letter of the Commissioner General of Agrarian | Arrangements should be made to recover the due amount as per |

	Service Committees had not taken action to recover the balance of Rs.5,671,637 which has existed for several years.	Development No. 7/8/12/11 dated 01 June 2022 regarding the settlement of balances due and payable, a large amount of balances that can be settled have been settled and the balances that cannot be settled have been forwarded to the Commissioner General at present.	circular provisions.
(ii)	Circular No. 04/2013 dated 08 March 2013	It was advised to use the premises of the Agrarian Service Centers to sell agricultural products, conduct temporary canteens, sell the products of farmers' organizations, but 12 Agrarian Service Committees had not been done so.	Agree. Will deal with it in the future. Should be done according to circular provisions No. 04/2013 dated 08 March 2013.

2 Financial Review

2.1 Financial results

According to the financial statements presented, a surplus of Rs.10,006,805 had been earned by 18 Agrarian Service Committees whilst 18 Agrarian Bank had earned a surplus totaling Rs.10,807,301 in the year 2022. As for the year 2021, a surplus of Rs.6,584,393 had been earned by 18 Agrarian Service Committees whilst 18 Agrarian Bank had earned a surplus totaling Rs.8,668,103.

2.1.1 Analytical Review

- i. The Surplus of Rs. 10,311,610 was obtained In 16 Agrarian Service Committees in the year under review and compared to that in the previous year, the surplus of 18 Agrarian Service Committees was Rs. 6,584,393. Accordingly, there was an increase in the surplus of Rs.3,727,217. The deficit of Rs.304,805 in 02 committees in the year under review, compared to which there was no deficit in any of the committees in the previous year. Accordingly, by adjusting the deficit of 02 Committees in the year under review with the increase in surplus, the total surplus had been increased by Rs.3,422,412.
- ii. The primary role of the Agrarian Service Committees is sell agricultural equipment including fertilizers, agrochemicals, seeds and plants, the total sales of all 18 Agrarian Service Committees for the year under review was Rs.391,152,864. Since the total gross profit was

Rs.8,335,539, the annual sales value of one Agrarian Service Committee was Rs.21,730,715 and the average gross profit was Rs.463,086.

- iii. According to the submitted financial statements, the financial status of the 18 Agrarian Service Committees as on December 31 of the year under review is given below.

		Rs.

Value of Accumulated Funds (Net Assets)	=	123,118,886
Long Term Loan Value	=	19,696,873
Current Liabilities	=	411,190,785
Total Assets		
• Current Assets	=	473,003,832
• Non-current Assets	=	81,002,712

03. Operating Review

3.1 Information of the Deposit Accounts and non-utilization of productive investment

The information about the current account balances in 02 Government Commercial Banks and the investments made as savings and fixed deposits in Government Banks by the 18 Agrarian Service Committees and 18 Agrarian Banks as at 31December 2022 are given below.

	Savings Deposit	Fixed Deposits	Current Deposits	Total
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	Rs..	Rs..	Rs..	Rs..
Committees	196,638,019	43,228,512	185,835,640	425,702,171
Agrarian Banks	22,535,792	7,706,181	1,836,509	32,078,482
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Total	219,173,811	50,934,693	187,672,149	
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Audit Observation	Comment of the Management	Recommendation
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(a) The balances in current accounts that do not earn any interest income are Rs.187,672,149 . Out of that, the current account balance of the Agrarian Service Committees was Rs.185,835,640 and the current account balance of the Agrarian Bank was Rs.1,836,509, while the current account balance of 08 Agrarian Service Committees exceeded Rs.2,000,000.	Agree. Will discuss with the management of the bank that maintain a minimum balance in the current account and operate the above accounts according to standing orders.	Funds should be invested into more effective investment source.

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| (b) The total amount of money invested in savings deposits which earn low interest income is Rs.219,173,811. Accordingly, the money had not been used effectively. | Agree. Kindly inform you that due to the unlimited increase in the prices of fertilizers in that year and due to having to buy the fertilizers manually, more money has to be withheld in the savings account of the committee. At present, due to the reduction in fertilizer prices, several Agrarian Service Committees have invested the excess funds in fixed deposits. | Funds should be invested into more effective investment source. |
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3.2 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) A land auction company in B/Mungandaluwa Division of Munneswaram Agrarian Service Committee removed the soil of about one acre of paddy land belonging to the land to be divided and sold and took legal action regarding making an unauthorized canal and putting the removed soil into paddy fields and filling the paddy fields with soil. Although information had been collected, legal action had not been taken.	Agree. Kindly inform that court case proceedings are in progress.	Legal action should be taken.
(b) The creditor balance of Rs.6,039,149 due in relation to 06 Agrarian Service Committees had not been settled.	Agree. At present, in relation to the letter of the Commissioner General of Agrarian Development No. 7/8/12/11 and dated 2022.06.01 regarding the settlement of balances due and payable, a large amount of balances that can be settled have been settled and the balances that cannot be settled have been	Arrangements should be made to settle the payable credit balances.

forwarded to the
Commissioner
General. Kindly
inform.

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| (c) | As on the opening date of the year under review, paddy cultivable (Grade A), other crops cultivable (Grade B) and non-cultivable (Grade C) fallow paddies were 344, 882 and 960 acres respectively and after the collecting for cultivation during the year, there were 330, 877 and 960 acres that could be cultivated with paddy, cultivated with other crops and uncultivated as at the end of the year under review. . | Agree. Kindly inform that, will continue to cultivate under fallow paddy harvesting. | Arrangements should be made to increase the amount of fallow fields used for annual crops. |
| (d) | The financial irregularity of Rs.2,110,289 committed by a saleswoman working in the marketing department of Madampe Agrarian Service Committee in the year 2009 had not been settled by the year under review. | Agree. Kindly inform that the case is in progress. | Actions should be taken to recover money related to financial irregularities from the responsible parties. |

3.3 Operating Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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(a) For the 2022/23 Maha season, 2,924.84 metric tons, 47,105.60 liters and 74,455 liters of organic solid fertilizers, organic liquid and bio-liquid fertilizers respectively had been obtained for all 18 Agrarian Service Centers. For this, Rs.140,551,870 had been paid out of Rs.332,379,603 which was due on January 31, 2023. According to 5.5.2.1 and 5.5.2.2 of the series of instructions related to the parties involved in the distribution program of environmentally friendly organic fertilizers, the Department of Agricultural Development should ensure that the farmers receive high quality fertilizers. At the time of distribution to the agricultural development regional officers and the agricultural research production assistants, they should have known that the fertilizers received from the producers of 07 Agrarian Service Centers have	Kindly inform that the registration of organic fertilizer producers and quality checking was after done by the Fertilizer Secretariat and after giving the compliance certificate to Agrarian Service Committees that fertilizer provided by those companies is of standard quality, the respective Agrarian Service Committees carried out the	Recommendations for release to farmers should be made only after obtaining assurance that the relevant supplies have been made in accordance with the Agrarian Service relevant standards and specifications.

- received the prescribed fertilizer compliance certificate, but the fertilizer stocks were obtained without checking the fertilizer stocks with the information of the compliance certificate.
- distribution of fertilizer.
- (b) In the year 2018, the soil test kits and test fluids received from the Department of Agrarian Development were given to 17 agrarian service centers for testing the PH value and electrical conductivity, but the district office had not available value of them and the test kits and test fluids are still useless and the all tests liquids were expired. Further, the district office had been purchased a quantity of testing liquid amounting Rs.405,324 in the year 2019 and by now they also had been expired.
- This test kit can only test Suitable actions Ph and Ec value. measures should be However, due to the fact taken to effective that the soil testing utilization of the soil centers established by test kit and test fluid. the Department of Agriculture can conduct a number of tests on the soil sample and issue a formal certificate, would like to inform that the referral for soil testing by the agrarian centers is at a very low level.
- (c) At the April 2023, 417.5kg fertilizer amounting Rs.200,400 from the stock of KCL fertilizer of 800 kg produced in September 2021, which was distributed free of charge to paddy farmers in November 2021 and 429.5kg fertilizer from the stock of 800kg of MOP fertilizer which was distributed free of charge to paddy farmers in month of October 2020 had not been released to the farmers in Nainamadama Agrarian Service Committee
- Agree. No instruction Arrangements should has been given to give be made to make the 417.5 kg of KCL fertilizer distribution fertilizer to the farmers process efficient and from this stock of regular. fertilizer and permission has been given to sell a bundle of MOP at Rs 15,000 each. Will follow the instructions.
- (d) 3,078 kg from the 3,600 kg of TSP fertilizer stock which was received from Ceylon Fertilizer Company for free distribution to farmers for the Mahakumbukkadawala Agrarian Service Committee on 23 June 2021, 266 liters of bio-liquid fertilizer received for free distribution to farmers from a private company and 168 fertilizer bundle from the 1,200 ERP subsidy fertilizer bundles received to Anamaduwa Agrarian Service Committee from the Eppawala Phosphate Company on 24 May 2022 had not been distributed to the farmers by the end of the year under review.
- Agree. In both these Arrangements should Committees, stocks of be made to release the fertilizers have been relevant fertilizer released for free stocks to the farmers distribution and those before expiry. balances remained after providing fertilizers to the farmers in the respective season and kindly inform that due to not giving instructions regarding re-supply, they are remaining in the warehouses.

3.4 Transactions of Contentious Nature

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
A loan amount of Rs.6,445,224 payable as tractor installments to the Agricultural Service Commissioner by 06 Agricultural Service Committees has existed for a long time, but such tractors were not physically available in the Agrarian Service Committees.	Agree. The machinery (tractors) of this district was handed over to Lanka Sugar Company and National Paper Corporation in 2022 and 2023. Another part has been auctioned and will remove from the fixed assets register and settle them.	The physical existence of the tractor should be investigated and taken action to settle the loan amount.

3.5 Idle or Underutilized Property, Plant and Equipment

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) 08 Tractors in 07 Agrarian Service Committees, 05 plant houses in 03 Agrarian Service Committees, 07 quarters in 07 Agrarian Service Committees, 06 Soil testing laboratories in 06 Agrarian Service Committees, a store in one Committee, 02 floor scales in 02 Agrarian Service Committees, 04 threshing machines in 03 Committee, committee land in 08 Committees, a water motor and a tube well in a committee were in idle.	Agree. Will arrange to remove the non-performing assets that can be put to efficient use and/or put out of use in the coming year under proper approval.	Appropriate action should be taken for utilization of idle resources.
(b) The production activities of the tissue culture laboratory that was established in the area of the Agrarian Development Committee of the Vanathavilluwa Agrarian Service Committee in the year 2012 were inefficient by the year under review, and the expenses incurred by the committee continued to rise annually, exceeding the income received from it. The total	Agree. Kindly inform you that in the future, a special investigation will be conducted regarding the said project and a decision will be	A formal plan for the utilization of the tissue culture facility should be prepared and implemented.

expenditure incurred by the committee for the year under review was Rs.2,394,908 including Rs.219,710 as at 31 December 2022 which was disclosed as a receivable balance in the statement of financial position. Accordingly, the ability to spend the committee's funds for the main operational activities of the committee had been lost.

taken regarding its further maintenance.

3.6 Delays of Project or Capital Works

Audit Observation	Comment of the Management	Recommendation
<p>36 reconstruction subjects relating to 04 tanks, 37 agricultural road reconstruction subjects, 13 reconstruction of agricultural wells, 05 new constructions of agricultural wells, projects that were planned to be constructed and 10 tanks planned to be reconstruct work with an estimated total of Rs.5,600,000 in the year 2022 of Puttalama Agrarian Service Committee, those works were not completed until 23 May 2023.</p>	<p>Agree. Due to the Corona pandemic situation and inflation in the country, financial allocations were not allocated for development activities, and financial allocations have been allocated for the year 2023, and they are going to start work as per the agreement.</p>	<p>Arrangements should be made to update irrigation industry and irrigation works and construction works.</p>

3.7 Procurement Management

Audit Observation	Comment of the Management	Recommendation
<p>In contravention of Section 3.4.2 (a) of the Government Procurement Guidelines Code 2006, stationery amounting Rs.169,536 by the Inginnimitiya Agrarian Committee and stationary including sales goods and toners amounting Rs.1,121,000 by the Puttalam Agrarian Service Committee on a number of occasions without calling for quotations during the year 2022.</p>	<p>Kindly inform that according to the above disclosure, will strictly follow the procurement process in the future.</p>	<p>Should be done according to the Procurement Guidelines.</p>

3.8 Resources released to other organizations

Audit Observation	Comment of the Management	Recommendation
<p>7988 square feet of the 18 Agrarian Service Committees had been charged Rs.1,111,759 annually to other institutions for office building premises, and due to the</p>	<p>Will done according to the new Circular No. 9/2015 (Amendment 1)</p>	<p>Arrangements should be made to update the room</p>

fact that the monthly rent had not been revised for a long time, the Agricultural Service Center had lost its income. issued by the rent. Commissioner General and the letter dated 23 August 2023.

3.9 Human Resource Management

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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(a) Due to the availability of 152 Agricultural Research and Production Assistant posts in 12 Agrarian Service Committees, it has not been possible to implement acreage taxes and agricultural projects properly in the respective divisions.	Agree. This situation has been created due to the lack of officers. Currently, some officers have to cover the work of two other divisions in addition to their duty division.	Vacancies should be filled.
(b) According to the provisions of Section 3.8.2 of Chapter III of the Code of Institutions, a suitable transfer system should be established to facilitate satisfactory service, but the Agricultural Research and Production Assistant Officers attached to the 18 Agrarian Service Committees had been working for a long time in the same workplace as they were not subject to transfers under an annual transfer policy.	Kindly inform you that the transfers are still being carried out and due to the shortage of officers, problematic situations have been created.	A suitable transfer procedure should be followed.

**4. Accountability and Good Governance
Budgetary Control**

Audit Observation	Comment of the Management	Recommendation
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According to the budget estimates prepared in relation to the reviewed year, there were variations in the range of 1.3 percent to 1123 percent for 141 income and expenditure subjects of the 18 Agrarian Service Committees. Due to this, the budget document control, which is used as a control method, was not used as an effective control method.	Kindly inform you that it was difficult to properly prepare the income and expenditure estimates and act accordingly due to the prevailing situation of secrecy and the economic depression that the farmers are facing.	Estimates should be prepared correctly.

5. Agrarian Banks

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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(a) According to 3.4.11(i) of Agricultural Development Department Circular No. 04/2012 dated February 29, 2012, a fund should be built from the disaster loan coverage premium charged in the grant of crop loans, and the money collected in that fund should be invested in a state bank to earn more interest but the amount of Rs.519,581 in 02 agricultural banks had not been dealt with in the same manner.	Agree. Kindly inform that it will be done promptly.	The Disaster Loan Cover Premium Fund should be invested as per the circular.
(b) If there is any surplus in an agrarian bank or if it is clear that the money is left unnecessarily, should proceed according to the section 4.4.4 of the circular no. 04/2012 dated 29 February 2012, but not in accordance with it, there was a balance of Rs.21,140,502 in the normal savings accounts of 11 agrarian banks as at the end of the reviewed year.	Kindly informed that the savings account balances indicated in the above disclosure will be invested as fixed deposits considering the values to be issued as loans to the farmers.	Should be according to the Circular No. 04/2012 dated 29 February 2012.
(c) According to the Agricultural Development Commissioner's Circular No.07/12/04/05 dated 16 June 2013, 30 percent of the 80 percent of the profit of the agrarian banks in the reviewed year should be credited to the Agrarian Service Committee Fund, but 10 agrarian banks had not done so.	Kindly inform that will be done according to the circular mentioned in the said disclosure with quickly.	It should be done in accordance with the Circular No. 07/12/04/05 dated 16 June 2013 of the Commissioner of Agricultural Development.
(d) According to Circular 4/2012 dated 29 February 2012, it is the responsibility of the Agrarian Bank to settle the debts and collect them on the due date, but at the end of the year under review, 14 Agrarian Banks had not dealt with the outstanding loan balances amounting to Rs.35,692,329.	Kindly inform you that I will follow the legal procedures to recover the outstanding debts of the said disclosure.	As per circular 4/2012 dated 29 February 2012, arrangements should be made to recover outstanding debts.

- (e) Although 595 Sithamu Women Farmer Organizations were registered under 11 agrarian banks, at the end of the year under review 281 farmer organizations out of that and 1781 Peramaga child saving deposits had been started under 07 agrarian banks, at the end of the year under review 1291 out of that were inactive. Kindly inform that the balances mentioned in the said disclosure will be activated in future. The Agrarian Bank should work to strengthen the farmers' organizations and maintain them at an active level.