

Chief Accounting Officer

Ministry of Agriculture

Summary Report of the Auditor General on the Financial Statements of the Ministry of Agriculture for the year ended 31 December 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018

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. My comments and observations on the financial statements submitted by the Ministry of Agriculture in terms of Section 11 (1) of the National Audit Act No. 19 of 2018 are stated in this report. The Report of the Auditor General which should be presented to 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 will be tabled in due course.

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 as at 31 December 2020 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Opinion

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

The Chief Accounting Officer is responsible for preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without material misstatements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and Section 38 of the National Audit Act No. 19 of 2018 . 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 annual and periodic financial statements to be prepared.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained and maintained for the financial control of the Ministry in terms of sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

1.4 Auditor's Responsibility on Audit of Financial Statements

My objective is to express a reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the Report of the Auditor General 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 users should be aware of this when making economic decisions based on these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. Furthermore I:

- Occasionally appropriate audit procedures were planned and implemented to identify and assess the risk of material misstatements in financial statements due to fraud or errors in obtaining a basis for a published audit opinion . The impact of fraud is greater than the impact of material misstatements due to the reasons such as collusion, preparation of forged documents, intentional evasion, making mistakes or evasion of internal controls.
- Although not intended to express an opinion on the effectiveness of internal control, an understanding of internal control was gained in order to design appropriate audit procedures from time to time.
- Evaluate the structure and content of financial statements, including disclosures, and the relevance of transactions and events in the financial statements in an appropriate and fair manner.

- Evaluated the overall presentation of the financial statements, including the fact that the transactions and events underlying the structure and content of the financial statements were appropriately and fairly included and disclosures.

The Chief Accounting Officer is made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

1.5 Report on Other Legal Requirements

I declare the following matters in terms of Section 6 (1) (d) and the National Audit Act No. 19 of 2018 .

- (a) The financial statements had been prepared in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

1.6.1.1 Revenue Receipts

- (a) Although the arrears of revenue as per the accounts of the preceding year of the Government Paddy Purchasing Programme was Rs. 439,123,225, an amount of Rs. 47,019,598 in addition to that was shown as arrears of revenue in the final accounts of the current year. Accordingly, it was observed that the reliable records of arrears of revenue in the Paddy Purchase Programme were not maintained.

- (b) Actions had not been taken to recover the income totalled to Rs. 347,311,945 in the above Paddy Purchase Programme including arrears of income amounting to Rs.138,204,923 from the previous year arrears of income of Rs. 209,107,022 during the year under review. Failure of recovery of balances is observed as a controversial issue.

1.6.2 Statement of Financial Position

1.6.2.1 Non-financial Assets

The following observations are made.

- (a) Without taking over the ownership of 15 vehicles belonging to other State Ministries and Departments in use by the Ministry of Agriculture, their value of Rs.51,500,000 had been entered in the statement of non-financial assets.
- (b) Fourteen vehicles registered under the Ministry but not in the custody of the Ministry valued to total of Rs.77,500,000 were shown as non-financial assets in the financial statements.
- (c) Four vehicles which are being owned by the Ministry and used by the Ministry valued at Rs. 8,360,000 had not been shown under the non-financial assets in the financial statements of the Ministry.
- (d) Although the it should provide the opportunity to register the vehicles in the name of a transferee Ministry when transferring vehicles to another Ministry in accordance with the Asset Management Circular of the Deputy Secretary to the Treasury No. 2/2017 dated 21 December 2017 , without doing so, 39 vehicles registered under Ministry of Agriculture, used by other Ministries and Departments valued at Rs. 259,300,000 had been entered in the financial statements of the Ministry . As the scope of the State Ministries is revised from time to time and the State Ministries are abolished and rejoined to these

Ministries, it is further observed that the said vehicles have been kept as non-financial assets of this Ministry as the Cabinet Ministry because of handing over certain vehicles precisely to those State Ministries is problematic.

2. Financial Review

2.1 Revenue Management

Although the revenue, estimated to be collected under the Government Paddy Purchase Programme bearing the Revenue Code No. 07.00.2003 for the year under review was Rs. 1,500,000,000, the collected revenue was Rs. 453, 206, 587 and it is 30 per cent of the estimated revenue.

2.2 Expenditure Management

The following observations are made.

- (a) Since the procurement activities had not been commenced from the beginning of the year, the total of 03 capital expenditure objects amounting to Rs. 278,000,000 had entirely been saved.
- (b) As a result of not making accurate forecasts while preparing estimates, the provisions ranging from 13 to 99 per cent of the net provision of 20 capital expenditure objects and 16 recurrent expenditure objects had been saved. The net provision made available for capital and recurrent expenditure objects was Rs. 8, 395,977,000 and out of that, a sum of Rs. 4,540,336,242 that was, 54 per cent had been saved.

2.3 Entering into Liabilities and Commitments

The following observations are made.

- (a) Although the net provision of Rs. 1,000,000,000 made available for an capital expenditure object of the Ministry in the year under review had entirely been utilized during the year, liabilities amounting to Rs. 3,250,000,000 had been entered into exceeding that limit.
- (b) The liabilities amounting to Rs.283,686 relating to the year had not been entered in the statement of liabilities and commitments in the financial statements [Note - (iii)] .
- (c) A sum of Rs. 1,514 Million and Rs. 1,000 Million had been allocated in the years 2020 and 2021 respectively in order to provide compensation for crop damages under the expenditure object 118-2-3-43-2202 and the value of said total provision had been given to Agricultural and Agrarian Insurance Board in the respective years. The Ministry of Agriculture had not carried out follow up actions in respect of the total utilization including the registered farmers, the farmers affected by the crop damages related to the compensation and the farmers received the compensation and the liabilities amounting to Rs. 3,250,000,000 had been brought to accounts on the basis of a letter provided by the Director General of the Agricultural and Agrarian Insurance Board without obtaining any written evidence that a liability for compensation was generated.

2.4 Non-compliance with Laws, Rules and Regulations

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

Laws, Rules and Regulations	Non-compliance
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(a) Asset Management Circular of Deputy Secretary to the Treasury No. 02/2017 dated 21 December 2017	Although the actions should be taken to register the vehicles that are used without the registered ownership to register in the name of their own Institution or formally transferred to the Institution that has the right of registration, there are 25 vehicles under the ownership of other Institutions that had not taken actions to take over or hand over as per the circular.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 1646	Although the original copies of monthly summaries of vehicle movements and running charts should be sent to the Auditor General before the 15th day of the following month, the monthly summaries of 13 official vehicles from April to December related to the year 2021 and the running charts and monthly summaries of 26 pool vehicles pertaining to March to December 2021 had not been submitted for audit even by 07 April 2022 .

2.5 Issuing of Advances and Settlements

Although the ad hoc sub imprests obtained should be settled within 10 days after the completion of the task as per Financial Regulations 371 (5) , it had taken a period ranging from 2 days to 106 days to settle the sub imprests of Rs. 892,540 which had been obtained by 23 officers of the Ministry of Agriculture in 53 cases.

2.6 Losses and Waivers

Two advance loan balances of Rs.44,596 of government officers had been written off during the year 2021 and details of those loan balances had not been entered in the statement of losses and waivers [Note – (i)] in the financial statement.

3. Operating Review

3.1 Management Inefficiencies

3.1.1 Termination of the Lease Agreement of the Building Acquired by the Ministry of Agriculture

The following observations are made in respect of cancellation of Lease Agreement No. 2178 in between the private company that owns the building rented for the Ministry of Agriculture and Ministry of Agriculture and the release of refundable deposits amounting to Rs. 63 Million.

- (a) A provision on how the lessee and lessor can terminate the agreement if necessary during the lease term had not been included in the lease agreement. Due to that deficiency, the property which was 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 it back in the fourth year and a lease amount of Rs.310,939,139 had been paid for the period when the building was not in use. That expenditure is observed as an uneconomic expense.
- (b) The officers of the Engineering Division of the Ministry and the officers of the Valuation Department had conducted an inspection during March and April 2021 in respect of damage caused to the leased building by the lessee's side during the lease period and although the lessor has been notified to participate in the above examination, the lessor had refused to participate in the above inspection. As a result of the absence of conditions in the agreement that a damage report should be called through an appropriate technical agency with the participation of the party in leaving the leased property and due to the fact that the officers of the Ministry of Agriculture and the lessor company had assessed and prepared the reports that the damage occurred to the building was Rs. 12,710,236 and Rs. 28,250,056 respectively, controversial situations had arisen in between the parties regarding damages and a risk of occurring excess liability of Rs.15,539,820 had created as per a valuation report prepared unilaterally by the lessor without any involvement of the Ministry of Agriculture.
- (c) According to the terms of the agreement No. II, actions should be taken to hand over the refundable deposit of Rs. 63 Million to the lessee by the lessor within one month period after the completion of the agreement and handing over the leased property. Nevertheless, the said deposit could not be able to obtain because of the lessor opposes at each time the lessee moves to terminate the agreement by handing over the leased property and being acted in accordance with the basic terms of the agreement.

3.1.2 Unrecovered Balances in Advances to Government Officers' Accounts

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- (a) A difference of Rs.1598 was observed in the accounting year 2020, in between the government officers' advance balance list and the balance as per the reconciliation statement and the difference was Rs.1610 in the year under review and steps had not been taken to correct the error.
 - (b) Although the advance should be charged and completed within 10 months from the date of the relevant accounting year as per Public Administration Circular No.s 26/2015 and 23/2020 , the recovery of the special advance balances totalling to Rs.16,000 given in the year 2020 to 4 officers who had attached and serve to the Kilinochchi District Secretariat had not been commenced even by the last date of the year under review.
 - (c) Although the festival advance should be recovered within 08 months from the date of issuance as per Public Administration Circular 21/2015 , any recovery had not been made during the accounting year from the festival advances totalled to Rs.70,000 given to 07 officers attached to the District Secretariats during the month of April 2021 .
 - (d) Out of the balance of Rs. 14,850 to be recovered in the year 2021 from the festival advances and special advances given in the year 2020 for 07 officers assigned to the District Secretariats, any recovery had not been made during the current year.
 - (e) The balance totalled to Rs.127,960 overcharged by a mistake from 27 officials working in the District Secretariats attached to the Ministry of Agriculture had been indicated and brought to accounts as balances to be settled to other Departments and Ministries without making arrangements to repay to those officers.
 - (f) If the amount due to the Government cannot be recovered from the principal debtor or guarantor, and if the principal debtor has deceased; from his heirs and the advices should be obtained from the Attorney General without delay in this regard as per the provisions of Paragraph 4.6 of Chapter XXIV of the Establishments Code, it had not

been so done for the recovery of festival advance balance of Rs.2,500 due from a deceased officer for more than 2 years.

- (g) A person who worked as a driver of a Minister and was not an employee of the permanent staff of the Ministry had left the service without paying any installment from the amount of Rs. 5000 which was the festival advance money. Actions had not been taken to collect the outstanding loan balance from the responsible parties since more than 3 years.

4. Human Resources Management

Although there are 12 Senior Level posts, 5 Tertiary Level posts, 200 Secondary Level posts and 13 Primary Level posts were in vacant in the Ministry of Agriculture, actions had not been taken to recruit for those posts or get revised the approved number of employees in a timely manner.

R.M. Rathnayake

Deputy Auditor General

For Auditor General.