

Secretary

Ministry of Mahaweli, Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development

Summary Report of the Auditor General on the Financial Statements of the Ministry of Agriculture, Rural Economic Affairs , Irrigation and Fisheries and Aquatic Resources Development for the year ended 31 December 2019 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018

1. Financial Statements

1.1 Qualified Audit Opinion

The audit of the financial statements of the Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development 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 give a true and fair view of the Ministry as at 31 December 2019 and its financial performance and cash flow for the year then ended, in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

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 qualified 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 inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of State Accounts Circular No. 271 /2019 dated 03 December 2019 .

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 effectively.

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. Also:

- Obtaining Adequate and Appropriate Audit Evidence to avoid the risks occurred due to fraud or error by planning appropriate audit procedures from time to time in identifying and assessing the risks of material misstatements potentially occurred in financial statements due to frauds or errors are based on my opinion. The impact of fraud is greater than the impact of material misstatements and collusion, preparation of forged documents, intentional evasion, or evasion of internal controls cause fraud.

- It is not intended to express an opinion on the effectiveness of internal control of the Ministry to plan appropriate audit procedures in a timely manner.
- Evaluate the structure of financial statements including disclosures and content-based transactions and events the structure that the financial statements are appropriate and reasonable.
- The transactions and events underlying the structure and content of the financial statements are appropriately and fairly included in when submitting financial statements as a whole.

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

1.5 Report on Other Legal Requirements

- (a) Although this Ministry had existed as Ministry of Agriculture in the preceding year, since the scope has changed during the year under review as the Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development I declare the financial statements are not in consistent with those of the previous year in terms of Section 6 (d) of the National Audit Act No. 19 of 2018 .
- (b) The following recommendations made by me on financial statements related to the previous year had not been implemented.

Paragraph Reference	Audit Observation	Recommendation
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1.6.2 (a)	The liabilities with regard to the year under review totalled to Rs. 744,166 had not been stated in the financial statements.	Arrangements should be made to include all liabilities in the financial statements.
1.6.2 (b)	Although it should not entered into commitments and liabilities exceeding the provisions in terms of State Accounts Circular No. 255/2017 of 27 April 2017, it had been entered into the liabilities totalled to Rs. 29,272,839 for 24 Expenditure Objects exceeding the savings remained as at 31 December of the year under review.	Actions should be taken in accordance with the State Accounts Circular.
1.6.2 (c)	The liabilities amounted to Rs. 8,390,327,962 had been entered into exceeding the savings amounted to Rs. 1,449,889,412 remained in the Expenditure Object of Fertilizer Subsidy as at 31 December of the year under review. Among those liabilities, the liabilities for the third and fourth quarters to be paid as fertilizer subsidies were not clearly identified	Actions should be taken in accordance with the State Accounts Circular.

and stated in the financial statements.

1.6 Comments on Financial Statements

1.6.1 Statement of Financial Performance

1.6.1.1 Receipts of Revenue

Revenue from sale of paddy had not been calculated and included in the Statement of Arrears Income in Financial Statement (ACA 1 (i)) . It was revealed in audit by April 2020 that the value of arrears by the end of the year under review was Rs. 511,936,132 .

1.6.1.2 Payment of Advances

- (a) Although the ad hoc sub - imprests obtained should be settled within 10 days after completion of the work in terms of F. R . 371 (5) , a period ranging from 01 to 80 days had been taken to settle the sub-imprests valued at Rs. 2,212,254 obtained on 105 occasions by 50 officials of the Ministry .

- (b) Although it was stated that the sub-imprests should not be taken for purposes for which it would have been improper use in terms of F. R. 371 (3), the ad hoc sub-imprests obtained by 11 officers on 14 occasions during the year under review amounting to Rs. 170,059 was retained for a period from 01 to 06 days and the full amount had been settled.

1.6.2 Statement of Financial Position

Non-financial Assets

- (a) Actions had not been taken to remove the value of 14 disposed vehicles belonging to the Ministry in the year 2019 from the statement of non-financial assets.

- (b) Although the buildings shown under Buildings and Constructions of the Ministry of Agriculture were classified as houses, official quarters, non-residential buildings and Office buildings, it had been shown as a total of Rs. 737,800,000 without showing its balance separately.

- (c) The value of 25 residential offices, 10 official quarters and a circuit bungalow belonging to the Irrigation Management Division of the Ministry had not been assessed and included in the statement of non-financial assets.

1.6.3 Cash Flow Statement

Cash Flow Generated from Investment Activities

Although the revenue received by disposing of 14 vehicles of the Ministry during the year under review amounting to Rs. 6,540,930 should be shown under the Divestiture Proceeds and the Sale of Physical Assets under cash flows generated from the investment activities, it was not included in the Cash Flow Statement.

1.6.4 Failure to Maintain Documents and Books

The Register of Security Deposits of the Irrigation Division of the Ministry had not been maintained in an updated manner.

2. Financial Review

2.1 Revenue Management

A Budget Provision amounting to Rs. 3,118,000,000 had been given to Rural Development Division for purchase of paddy in the year under review under the Expenditure Object No. 118-1-10-1-1409 and a sum of Rs. 1,959,912,319 had been incurred for the purchase of paddy for 20 District Secretariats out of that. Nevertheless, even though a revenue of Rs. 299,814,540 had been remitted to the Treasury under Revenue Code 2003.07.00 by 08 District Secretariats during the year under review, actions had not taken to calculate the arrears income receivable to the Government from the sale of paddy and to recover them.

2.2 Expenditure Management

The following observations are made in this regard.

- (a) The provisions of 20 Capital Expenditure Objects totalled to Rs. 6,762,400,000 and the provisions of 08 Recurrent Expenditure Objects totalled to Rs. 5,104,666 had been entirely saved.

- (b) More than 25 per cent of the net provision in 76 Capital Expenditure Objects and more than 10 per cent of the net provision in 85 Recurrent Expenditure Objects had been saved due to not making accurate forecast in the preparation of Estimates. The net provision made available for those Capital and Recurrent Expenditure Objects was Rs. 7,634,792,000 and a sum of Rs. 3,314,504,316 out of that or 43.41 per cent had been saved.
- (c) Even though the additional provisions amounted to Rs. 441,167,370 had been made available by Supplementary Estimates for 04 Expenditure Objects, those additional provisions were totally saved.
- (d) Due to the preparation of over estimates for the 5 Expenditure Objects mentioned in Annexure 06 in preparing the Initial Estimates, provisions totalled to Rs. 93,700,000 had been made available and 49 per cent out of that or Rs. 46,381,000 had been transferred to another Expenditure Object by F.R. 66 . The total cost of these 5 Expenditure Objects was 22 per cent or Rs. 20,463,552 and the savings was 27 per cent or Rs. 26,858,448 . Over Estimates had been prepared for the above Expenditure Objects and despite additional provisions had been obtained by F. R. 66 for other Expenditure Objects, provisions of those Expenditure Objects had saved ranging from 15 per cent to 47 per cent.
- (e) Fifteen per cent of the Capital Expenditure allocated for the year 2019 should be identified as savings in terms of Budget Circular No. 04 /2019 dated 17 June 2019 and even though it had been informed by the National Budget Circular No. 5/ 2019 dated 24 September 2019 that it was mandatory to save a 10 per cent of the allocations made for Capital Expenditure furthermore, and therefore the 25 per cent of savings should be the Rs. 2,608,695,500 out of the provisions of 50 Capital Expenditure Objects amounting Rs. 10,434,782,000, only a sum of Rs. 949,643,278 had been saved by the Ministry.

- (f) Even though a sum of Rs. 3118 million was allocated for the Expenditure Object of purchase of paddy No. 118-1-10-1-1409 by 06 Supplementary Estimates, out of that, only a sum of Rs. 1960 million was spent. Accordingly, the percentage of savings is 37. A sum of Rs. 118 million had been allocated through 4 additional Supplementary Estimates despite it was able to cover these costs from the first 2 Supplementary Estimates .

- (g) Due to the fact that over estimates have been prepared in the preparation of the Initial Estimates, provisions were transferred to Other Expenditure Objects from 10 Expenditure Objects under F. R. 66 .

- (h) The Estimated Budget Provisions had not been allocated for the Expenditure Object No. 118-1-10-14-1409 and provisions amounted to Rs. 3,118 million had been made through Supplementary Estimates. Instead of showing that Rs. 3,118 million under Estimated Supplementary Provisions in the preparation of financial statements, it had been shown under Estimated Budget Provisions.

2.3 Liabilities and Commitments Entered into

Out of net provision made available under 28 Expenditure Objects of the Ministry in the year under review amounting to Rs. 40,303,499,000, the savings was Rs. 16,419,167,079 after utilization of Rs. 38,460,072,632 during the year under review. Nevertheless, it had been entered into liabilities amounted to Rs. 23,884,831,921 exceeding that savings.

2.4 Non - compliance with Laws, Rules and Regulations

The instances of non-compliance with the provisions of the Laws, Rules and Regulations observed during the audit test checks carried out are analyzed below.

Reference to Laws, Rules and Regulations

Non - compliance

(a) Section 1.1.7 of the National Budget Circular No. 118 dated 11 October 2004

Debt balances of officers transferred in and transferred out should be taken over or settled within 03 months and although it has been informed that the balance should not be taken into account after that period, debt balances receivable from 14 officers who have been transferred from the Fisheries and Aquatic Resources Development Division of the Ministry to other Ministries/ Departments and Provincial Councils amounting to Rs. 153,526 for more than 5 years had not been settled even by 31 December 2019 .

(b) Sections 4.2.4 and 4.4 of Chapter xxiv of the Establishments Code

If the debtor dies before reaching the age of 55 years/ if for any reason , retires from service, although the outstanding amount of the loan and the interest should be deducted from the debtor's commuted pension or gratuity at the time of the incident, actions had not been taken up to

the end of the year under review to recover the debt balance of Rs. 158,464 due for distress and festival advances of 15 deceased employees and debt balance of Rs. 266,046 due from 23 officers who had retired for more than 05 years.

(c) Financial Regulations of the
Democratic Socialist Republic of Sri
Lanka

(i) F. R. 128 (i) (h)

Not making provision for preparation of reports on arrears of revenue and recovery of them.

(ii) F. R. 1646

Although the daily running charts of the vehicles belonging to the Ministry along with the originals of the monthly summary of travel should be sent to the Auditor General before the 15th day of the following month, actions had not been taken to submit the running charts to the audit in respect of 98 vehicles belonging to the Ministry.

(d) Section 12 of the Public Finance
Circular No. 02 /2015 dated 10 July
2015

Even though identifying the vehicles to be disposed of and provide information with regard to that before March 31 of the relevant year and after the completion of the disposal process, the relevant information regarding that should be duly

completed in Form No. 01 and Form No. 02 respectively before 30 June of the relevant year should be submitted to the Director General of Public Finance, the Director General of National Budget, the Director General of Public Enterprises, the Director General of State Accounts, the Director General of Treasury Operations and the Auditor General, actions had not been so taken.

(e) Paragraph 06 of Budget Circular No. 3 /2019 dated 08 April 2019 and Paragraph 2 (v) of the Budget Circular No. 04/2019 dated 17 June 2019

Although it had been stated that the foreign travels should be restricted, additional provisions amounted to Rs. 2,870,000 had been allocated and spent for foreign travel (118-1-1-0-1102) from 2 other Expenditure Objects under F. R. 66 .

2.5 Issuance and Settlement of Advances

(a) Even though the debt balances receivable from the 29 Officers who had worked in and left the Divisions of Irrigation, Rural Economic Affairs, Fisheries and Aquatic Resources and Development and Agriculture of the Ministry totalling to Rs. 793,931 had elapsed for more than 05 years, arrangements had not been made to take necessary legal actions to recover those debt balances.

(b) Necessary legal actions had not been taken to recover distress, festival and special loan balances amounted to Rs. 9,348 from an officer who was interdicted 5 years ago.

(c) Although there was an unidentified loan balance amounting to Rs. 415,636 as per the Summary of Individual Balance Classification and Control Account Balance Reconciliation Statement, actions had not been taken to settle it.

2.6 Operating of Bank Accounts

Actions had not been taken in terms of F. R. 396 (d) in respect of 17 expired cheques which were issued but not presented to the bank for payment amounting to Rs. 46,949 in connection with the bank account of the Irrigation Division of the Ministry.

03. Operating Review and Performance

Operating review with regard to Revenue, Expenditure, Assets and Liabilities in the Financial Statements furnished, Audit Observations on Sustainable Development, Good Governance and Human Resource Management will be included in the report furnish in terms of Section 10 of the National Audit Act No. 19 of 2018 mentioned in Paragraph 1.1 above.

R.M. Ratnayake
Assistant Auditor General
For Auditor General.