

Agrarian Development Fund - 2014.

The audit of financial statements of the Agrarian Development Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory Information 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 Section 97(5) of the Agrarian Development Act, No. 46 of 2000. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2 Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Agrarian Development Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Unexplained Differences

The following observations are made.

- (a) A reconciliation of the cash balance of the Fund with the Treasury books revealed a difference of Rs.651,797 existing from the year 2008 .Action had not been taken to identify and settle the difference.
- (b) Differences of Rs.186,063 and Rs.41,491 respectively existed between the amounts shown in the financial statements and the schedules in respect of the instalments recovered for tractors distributed under the Japan Yen Programme and Two Wheel Tractor Trailer Debtors Accounts .

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The arrears of installments as at 31 December 2014 for the tractor trailers supplied to the Agrarian Service Centres and Farmers' Societies in the year 1995 amounted to Rs.6,236,066 and proper actions had not been taken to recover the amount.
- (b) A sum of Rs.450,000, identified as a stock shortage before the year 2006 continued to be shown in the financial statements without taking action for the recovery from the officers responsible.
- (c) The instalments recovered from supply of Sprayers and the money received for Bulldozer Services amounting to Rs.10,746,805 had been retained in the Deposit Account since the year 2004 and action had not been taken for the settlement of that amount .
- (d) An effective course of action had not been taken for the recovery of the audit fees amounting to Rs.31,250 paid on behalf of Agrarian Service Centres and the advances amounting to Rs.543,000 granted in the year 2012 for the construction of the Tissue Culture Laboratory at Wanathawilluwa .

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules ,regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371(5)	A sum of Rs.269,753 out of the advances granted for training of Agricultural Research and Productivity Assistants in 05 instances in the year under review and a sum of Rs.222,918 out of the advances granted in 15 instances in the year 2013 for checking the rural irrigation water standards had been retained in hand without being used for the intended purposes and settled in cash at the end of the year under review.
(ii) Financial Regulations 341 and 342(1)	Test checks of the Agrarian Service Centres revealed that a Register of Counter foil Books for General Receipts and Acreage Tax had not been maintained while those books had not been kept in safe custody.
(c) Section 4(1)(C) of the Public Finance Circular No.PE/423 dated 22 December 2006	An expenditure amounting to Rs.598,080 had been incurred in the year under review for a printing work not included in the approved budget.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year under review had resulted in a surplus of Rs.15,096,452 as against the surplus of Rs.12,827,826 for the preceding year, thus indicating an improvement of Rs.2,268,626 in the financial results.

4 Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Even though recovery and settlement of the instalments to the Ministry for the tractors and water pumps distributed by the Ministry of Agriculture under the Japan Yen Grant Programme is a responsibility of the Fund, a sluggishness was shown in the recovery of instalments. The outstanding instalment as at 31 December 2014 amounted to Rs.413,601,692. No recoveries whatsoever had been made for the instalments at the end of the year under review for 27 tractors supplied for 12 districts included therein.
- (b) No recoveries whatsoever had been made for the instalments at the end of the year under review for the sum of Rs.1,561,120 recoverable for 74 water pumps valued at Rs.2,220,000 distributed in the year 2010 to the farmers in Vauniya and Ampara Districts.

4.2 Underutilized Assets

Even though 41,300 of Agro Ecological and water shed hand books, water shed Albums and Rural Irrigation Manuals had been printed at a costing of Rs.8,227,329 from the Fund, out of that 36,582 publications valued at Rs.5,974,209 remained in the Water Management Section of the Department without being distributed even as

at the end of the year under review. It was observed in audit that such a large quantity had been printed without proper forecasting of the requirements.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure in the year under review and as such the budget had not been made use of as an effective instrument of management control.

6 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Assets Management
- (c) Settlement of Deposit Accounts
- (d) Recovery of Loans