

## **Farmers' Trust Fund – 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Farmers' Trust Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement 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. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 1.5 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 qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Fund 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 of the Fund.

## 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the

Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Sri Lanka Public Sector Accounting Standards

Non-compliance	Comments of the Management	Recommendation
<p>In terms of paragraph 150 of the Standard 1, it had not been disclosed on following matters such as the domicile and legal form of the entity, a description of the nature of the entity's operations and principal activities and a reference to the relevant legislation governing the entity's operations.</p>	<p>Farmers Trust fund has been established (FTF) on 09 March 1994 through a Deed of Trust signed by the Secretary, Ministry of Finance on behalf of the Government and a panel consisting of the then Secretary, Ministry of Agriculture Development and Research, State Secretary of the same Ministry, the Secretary of the Ministry of Agriculture Production and Marketing, Commissioner of Agrarian Development and the Deputy Secretary to the Treasury on behalf of the Fund.</p> <p>Granting advances, loans and grants for various agricultural development programmes is the key function of the Farmers' Trust Fund. The National Lotteries Board credits 10 per cent of the income from sale of lotteries of the</p>	<p>Action should be taken in terms of the Standard.</p>

Govisetha Lottery to the Consolidated Fund of the General Treasury on behalf of the Farmers' Trust Fund for raising funds. Moneys are released from time to time by the General Treasury as per the financial requirement of the Fund.

**1.5.2 Accounting Deficiencies**

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
The interest of Rs.29,750,390 for the year under review on fixed deposits valued at Rs.775,000,000 deposited in 05 banks had been under-computed, thus understating the interest receivable and income from interest by the same amount.	Avoidance of taking the interest on fixed deposits revealed by the audit report, which was deposited in the year 2018 and matured in the year 2019, into the interest income.	Transactions relating to the year under review should be identified and brought to account correctly.

**1.5.3 Unexplained Differences**

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
According to accounts notes of the financial statements, the income from Govisetha Lotteries had been Rs.4,181,413,741 and according to the Treasury books, it had been Rs.4,141,819,627, thus observing an unexplained difference of Rs.39,594,114.	Delays in remitting the relevant moneys through cheques to the General Treasury by the National Lotteries Board had attributed to the said decrease in the balance according to the General Treasury books.	There should not be a difference between the balance of the General Treasury and the National Lotteries Board.

#### 1.5.4 Inappropriate Valuation or Estimation

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Audit Observation	Comments of the Management	Recommendation
<p>Even though the Fund was commenced for achieving objectives of the Deed of Trust by which the Framers' Trust Fund was established and for agricultural development and welfare of small farmers, sums of Rs.755,001,919 and Rs.93,513,941 had been invested in fixed deposits and Treasury Bills respectively in the year under review and a sum of Rs.131,781,727 had been earned as the interest income therefrom instead of utilizing those funds adequately for achieving aforesaid objectives. Further, it had been estimated for commencing 78 projects at a cost of Rs.826,396,000 in the year under review, only 32 of those projects costing Rs.197,400,112 had been commenced and only a sum of Rs.40,296,933 had been spent as development expenses therefor.</p>	<p>Moneys of the Fund are utilized for functions stipulated in the Deed of the Farmers' Trust Fund and those projects are implemented according to project proposals presented for the annual estimate. Accordingly, moneys are released as loans, grants and advances through agricultural development programmes for various institutions and persons. As loans had been granted to various agricultural programmes through the Govi Shakthi Credit Scheme for many projects, the expenditure incurred for development programmes in the year 2019 had decreased, thus making contribution towards the development through agriculture.</p>	<p>Moneys of the Fund should be utilized for functions of the Deed of the Trust Fund before granting loans for the Govi Shakthi Credit Scheme.</p>

### 1.5.5 Lack of written Evidence for Audit

Written evidence on balances of the following 02 Assets Accounts and the Share Account vested in the establishment of the Farmers' Trust Fund by amalgamating the Revolving Fund and Agricultural Trust Fund in the year 2002, had not been made available to Audit.

Item	Amount Rs.	Evidence not made available	Comments of the Management	Recommendation
(a) Debtors	9,603,076	Letters for confirmation of balances and debtors age analysis	As these balances were transferred to the Fund, a debtors age analysis could not be prepared for this balance. Even though the said balance had brought forward continuously since the year 2002, no institution is available for confirmation of balances.	As these balances have remained for many years, action should be taken to settle them.
(b) Deposits of Farmers	697,644	Detailed Deposit Register	As it was a balance transferred to the Fund, detailed deposit registers were not available with the Fund. Only a balance was recorded in accounts reports.	-Do-
(c) Share Account	591,965	Register of shareholders	As it was a balance transferred to the Fund, a register of shareholders was not available with the Fund. Only a balance was recorded in accounts reports.	-Do-

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Debtors balances of Rs.26,035,319 remained as at 31 December 2019 had been shown in the financial statements over a period from 03 years to 18 years without being recovered.	A committee consisting of ministerial officers had been appointed in the year 2019 and according to its recommendation, the balance was written off by obtaining the approval of the Board of Directors. However, the General Treasury has informed that these balances cannot be so written off and according to its decision, these balances were not eliminated from reports of accounts. Action will be taken to eliminate this balance even by a Cabinet Paper in the year 2020.	Prompt action should be taken to settle these balances in future.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Fund during the year under review had resulted in a surplus of Rs.59,348,755 as compared with the corresponding surplus of Rs.70,160,142 for the preceding year, thus observing a decrease of Rs.10,811,387 in the surplus. Accordingly, the increase in expenditure on development as compared with the preceding year had mainly attributed to the above decrease.

## 3. Operating Review

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### 3.1 Operating Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.1,000,000 had been released in the years 2015 and 2016 to a farmer at Moragollagama	It had been referred to the Farmers' Tribunal regarding the default of the loan obtained by the project and a	Action should be taken to recover loan installments.

for Carbonic Red Lady Papaw cultivation without being obtained a security and despite being reported in the field inspection report that there was no progress of the project. The Fund had failed to recover the loan installments even by December 2019 and only a deposit of Rs.150,000 retained by the Farmers Bank had been recovered by the Fund.

period of 12 months had been granted thereby to settle loan installments.

As installments had not been paid up to now, the approval of the Commissioner General of the Agrarian Development has been sought for taking legal action.

- (b) A sum of Rs.1,000,000 had been approved in the year 2017 on the agreement of settlement within 24 months for the project of potato cultivation at Walapane in the District of Nuwara Eliya and out of that, a sum of Rs.500,000 had been released to the owner of the project. The performance report of the Assistant Commissioner of Agrarian Development revealed that the said project has not been successfully implemented and as such, the remaining amount had not been released. However, the Fund had not taken action to recover the loan of Rs.500,000 granted and interest thereon.
- A sum of Rs.1,000,000 had been approved for the project and a sum of Rs.500,000 had been provided as a first installment. As an adequate part of works had not been completed using the first installment, the second installment had not been released. As the period for settlement of loans had lapsed by now, it has been referred to the Farmers Tribunal and reaching a final decision in the future is due.
- Action should be taken to recover loan installments or to take legal action thereon.
- (c) An interest free loan of Rs. 5.9 million had been granted on one year payment basis to the Ran Geviliya Social Entrepreneur Public
- A field inspection will be carried out in this connection by a special team and reports thereon will be referred to the Board of Directors for future action.
- Prompt follow up action should be taken.



Company which was established with a view to cultivating paddy lands of 3000 acres in extent located throughout the District of Polonnaruwa according to the Global Gap Certification Process in the year 2018/2019 and gaining economic benefits by making the farmer community aware on the International Standardization methods and adopting environmental friendly sustainable agricultural method. According to the project time frame, it was expected to obtain the GAP Certificate (Good Agriculture Practice) for the production of paddy of female farmers by March 2019. Nevertheless, no female farmers had reached the expected level even by June 2020 and the loan granted by the Fund as well had not been recovered up to now.

### 3.2 Human Resources Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
The financial management of the Fund was not at a satisfactory level due to reasons such as, low progress in the recovery of loans due to lack of a permanent staff, granting advances again and again despite having unsettled advances, delays in the recovery of loans, writing off the unrecoverable loans etc.	This observation is accepted. As a result of changing the Cabinet from time to time, it has not been possible to finalize the activities relating to the Act. Plans have been prepared to formulate a formal scheme of recruitment and appoint a permanent staff once the Act is passed.	A permanent staff should be appointed.

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
An Annual Action Plan for the year under review had not been prepared in terms of Paragraph 03(b) of the Public Finance Circular No.01/2014 dated 17 February 2014.	Project proposals are summoned annually for preparing the estimate of the Farmers' Trust Fund from institutions including departments, and institutions belonging to the Ministry of Agriculture, District Secretariats, Provincial Ministries of Agriculture and project proposals selected out of them, are implemented throughout the year on the approval of the Board of Directors. As such, an Annual Action Plan was not prepared.	An Action Plan should be prepared annually.