

Farmers' Trust Fund – 2021

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Farmers' Trust Fund for the year ended 31 December 2021 comprising the financial position as at 31 December 2021 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 report to Parliament appear in this report.

In my opinion, except for the effect of the matters stated 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 2021, 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

I express a qualified opinion 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

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 determine 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 intend to liquidate the University 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 University 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 Institute.

1.4 Auditor's Responsibility for Auditing the Financial Statements

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 auditor's 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:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained 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 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 auditor's 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 auditor's 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 Institute
- 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 Audit Observations on the Preparation of Financial Statements

1.5.1. Emphasizing the Matters

Audit Observation

As disclosed by Note No.1.10 of the financial statements presented, the cumulative sum credited by the National Lottery Board to the Consolidated Fund of the General Treasury at 10 per cent of the *Govi Setha* lottery income from 1995 to 2021 was Rs. 6,010,246,615. Nevertheless, only Rs. 955,605,390 had been given during the period of 27 years to perform duties and functions of the Fund that has been established by a deed of trust.

Comment of the Management

Not commented.

Recommendation

The income of the *Govi Setha* lottery should be utilized with maximum efficiency.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the Relevant Standard

(a) In terms of Paragraph 150 of Sri Lanka Public Sector Accounting Standard 01, the legal form of the entity, a description of the nature of the entity's operations and principal activities, the deed of trust related to governing the entity's operations had not been disclosed in the financial statements.

Comment of the Management

Action has been taken to disclose the information that the audit query has notified to be mentioned regarding the Fund in the financial statements from this year.

Recommendation

Necessary disclosures should be made in terms of the Standard.

(b) As the useful life of the fixed assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 7, the estimated error on the fully depreciated assets worth Rs.1,074,192 had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03 and adjusted in the financial statements.

Action will be taken to revalue and account for the relevant values in the year 2022.

Fully depreciated assets should be revalued.

1.5.3. Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) Although it had been stated in the accounting policies that the financial statement would be prepared on accrual basis, contrary to that the sales income of the <i>Govisetha</i> lottery had been brought to account on cash basis,	The <i>Govisethe</i> lottery income received from the year 1994 to 2015 has been brought to account as a receivable income. As the audit pointed out that the actual information on the financial position was not thus disclosed, only the actual income received by the Fund from the year 2016 has been brought to account and shown by a note.	Action should be taken in accordance with the Accounting Standards.
(b) Although the interest income of the loans granted to the farmers by the state banks under the Krushi Shakthi loan scheme should be Rs. 3,488,230 for the year under review, the interest income identified in the financial statements was Rs, 2,791,112 and as such, interest income and the receivable interest income had been understated by Rs. 697,118.	Interest income of Rs. 697,117.27 receivable for the year 2020 has been received in the year 2021. It has been credited to the receivable interest account. It is a receipt pertaining to the year 2020. It has been brought to account on cash basis.	The total interest income receivable for the year under review should be brought to account.
(c) Although the interest of the Treasury Bills to be matured in the year 2022 is Rs. 905,434 relating to the year 2021, it had been brought to account as Rs. 3,248,997 and as such, the interest income of Treasury Bills and receivable interest income had been overstated by Rs. 2,343,563.	The interest income for the Treasury Bills has been brought to account on cash basis and action will be taken to calculate and account for the interest on accrual basis in this year.	The receivable Treasury Bills interests should be brought to account in accordance with the accounting policies.
(d) It had been disclosed that accounting would be done on accrual basis in the financial statements. However, despite failure to make provisions for the interest income of credit for maize	Agreed. This loan has been granted on 20 November 2020 and the interest applicable to the number of days in 2020 has not been recorded as receivables. As this loan has been granted on the	Loan interest should be accounted for in conformity with the accounting policies.

receivable for the preceding year, the interest income of credit for maize amounting to Rs. 228,508 received in the year under review for the preceding year had been stated in the financial statements as the receipts of interests of the year under review.

basis of settling within a period of 06 months, the relevant receivable interest income has been stated as an interest income relevant to the year 2021.

(e) Although the receivable interest for 02 fixed deposits in the People's bank which are matured in the year 2022 should be Rs. 3,861,301 as at 31 December 2021, interest income had been stated as Rs. 10,178,963 and as such, the difference between the interest income and the receivable interest income had been overstated by Rs. 6,317,662 in the financial statements.

The interest of Rs.3,861,301 computed as at 31.12.2021 for two fixed deposits worth Rs. 125,000,000 which are to be matured in the year 2022 is the interest value to be received in the year 2021. The relevant difference is the opening balance of the ledger accounts and action will be taken to correct it in this year.

Financial statements should be corrected.

(f) It was observed that the balance of the savings account amounting to Rs. 7,241,656 that had been stated in the statement of financial position as current assets did not actually exist.

This balance has been shown in the final accounts reports since the year 2002 and further action is being taken to write off that amount.

An investigation should be conducted and writing off should be done based on its decision

(g) It was unable to confirm the existence and recoverability of the other receivable interest balance of Rs.1,193,727 continued to exist in the statement of financial position from the previous years, the total of 5 short-term loan balances of Rs.18,354,761 and a long-term loan balance of Farmers Bank of Rs.9,112,579 which had been taken over during the establishment of the trust fund.

Farmers' Trust Fund is a fund established by amalgamating two other funds. The then existing balances of the funds amalgamated therein have been transferred to the Farmers' Trust Fund. Thereby, some balances have been settled by now and the balances of which the details could not be ascertained remain further outstanding. Arrangements are being made to eliminate from the books the loan interest balances that have existed since then.

If there is no possibility to recover the balances, they should be written off.

1.5.4. Non-reconciled Control Accounts or Reports

Item	Value as per Financial Statements	Value as per corresponding Reports	Difference	Comment of the Management	Recommendation
	Rs.	Rs.	Rs.		
Income from the Govosetha Lottery	5,054,641,225	5,033,927,559	20,713,666	The National Lottery Board has been apprised to inform the difference between the balance of the Govosetha Lottery income and the balance of the General Treasury.	The difference should be identified and corrected.

1.5.5. Lack of Documentary Evidence for Audit

The following observations are made.

Item	Amount	Audit Evidence not Furnished	Comment of the Management	Recommendation
	Rs.			
(a) Deposits of the Farmers'	697,644	Detailed schedules and balance confirmations	These balances have been transferred in the establishment of the Farmers' Trust Fund. Only a list of balances related to these balances is available.	Correct information should be furnished without delay
(b) Balance of the Share Account	591,965	Share Certificate	- Do-	Information should be furnished without delay
(c) Balance of the Govisetha Fund	159,399,408	Detailed schedules and balance confirmations	- Do-	Information should be furnished without delay

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

The following observations are made.

Reference to Laws, Rules, Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Article 149 of the Constitution and State Finance Circular No. 01/2020 dated 28 August 2020	Although the collection of revenue and incurring expenditure outside the budget should not be approved without the approval of the Appropriation Act in order to maintain fiscal discipline, the Fund established by the Farmers Deed of Trust dated 9 March 1994 is being operated without the approval of the Parliament.	The arrangements related to the adoption of the Bill are being made at present and a discussion in this connection has been requested from the Ministry of Finance. Thereafter, action will be taken to complete the further activities to be done in this regard promptly.	A Bill should be passed in Parliament expeditiously.
(b) Section 14 of Deed of Trust of the Farmers' Trust Fund dated 09 March 1994	An staff and a scheme of recruitment had not been prepared and approved for the Trust Fund.	Action will be taken to prepare a scheme of recruitment and recruit a permanent staff after the adoption of the Fund's Act.	A scheme of recruitment should be prepared.
(c) Section 15.1 of the Public Finance Circular No.01/2020 dated 28 August 2020.	Although an Act should be prepared for statutory funds and trust funds which do not have an Act and approval of Parliament should be obtained within a year from the date of the circular, an Act had not been approved for this fund despite the expiry of that period.	The arrangements related to the adoption of the Bill are being made at present and a discussion in this connection has been requested from the Ministry of Finance. Thereafter, action will be taken to complete the further activities to be done in this regard promptly.	An Act should be prepared and approval form Parliament should be obtained.

2. Financial Review

2.1 Financial Results

The operating results for the year under review was a surplus of Rs. 80,149,176 as compared with the corresponding surplus of Rs.38,549,215 for the preceding year. Accordingly, an improvement of Rs. 41,599,961 was observed in the financial results. This improvement was mainly due to receipt of Govisetha Lottery Income of Rs. 100,000,000 from the General Treasury.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) A total of Rs.102,662,700 had been given as loans to the National Livestock Development Board on 9 occasions from 2002 to 2004. Of that loan, Rs.9,000,000 had been agreed to be recovered within one year and Rs.93,662,700 immediately after the sale of the land called Mahaberiathenna Watta situated in Kandy in terms of the agreement. Nevertheless, action had not been taken to make recovery as agreed. As such, outstanding loan balance of Rs. 60,812,700 and the accrued interest of Rs. 98,023,448 as at 31 December 2021 further remained recoverable although 20 years have passed since the grant of loan.	The loan balance of Rs.98,412,700 at the end of 2013 is Rs.59,212,700 as at 31.05.2022. Although the National Livestock Development Board has been informed on many occasions to settle this loan immediately, they informed that due to the current financial situation of the Board they could not pay more than Rs. 400,000 per month.	Action should be taken to recover the loan and interest in terms of agreements.
(b) A sum of Rs.500,000 had been released to a farmer of Walapana village in Nuwara Eliya district in the year 2016 for potato cultivation after agreeing to recover it within 24 months. The Trust Fund had approved an amount of Rs.1,000,000 for the project and due to the fact that the Assistant Commissioner of Agricultural Development had reported that the project had not been implemented successfully, the remaining amount was not released. Although 6 years have passed since the release of loan, the loan amount of Rs. 500,000 given after the implementation of the project and interest have not been not recovered.	This matter has been referred to the Agrarian Tribunal to take legal action in this regard.	Action should be taken to recover the money as agreed.
(c) The Farmers' Trust Fund had provided Rs.200,000,000 through the Department of Agrarian Development to grant loans to maize farmers at 6 per cent interest. Although the Department of Agrarian Development has to settle the loan amount with an interest of 1 per cent back to the Farmers' Trust Fund, an interest of Rs. 1,400,959 had not been recovered in the settlement of the loan as at 31 December 2021.	A sum of Rs.139.2 of this loan amount has been recovered so far. Regular notifications are made to recover the remaining balance along with the interest amount.	Action should be taken to recover the interest must be collected along with the premium.

3.2 Operating Inefficiencies

The following observations are made.

Audit Observation

(a) A sum of Rs.25,000,000 had been released to the district offices of the Department of Agrarian Development in the year 2020/21 for granting loans to the farmers under the special program for the cultivation of fallow fields and the district offices had not disbursed Rs. 10,519,024 of that amount to the farmers.

(b) As pointed out by the audit last year, for cultivating 3,000 acres of paddy lands spread across the Polonnaruwa district according to the Global Gap certification system in 2018/2019, an interest free loan of Rs.5.9 million, on the basis of payment within a period of one year, was given to the Rann Geviliya Social Enterprise Public Company, which was established with the objective of educating the farmers about international standardization methods and achieving economic benefits by adopting environmentally friendly sustainable agriculture method. According to the project time frame, although it was expected to get GAP (Good Agriculture Practice) certificate for the farmers paddy production by March 2019, not even a single farmer had reached the expected level by December 2021 and the loan amount given by the Trust Fund has not been recovered yet.

(c) In the establishment of the Farmers' Trust Fund by amalgamating Revolving Fund and the Agricultural Trust Fund in the year 2002, the debit and credit balances of the two funds were transferred to the Farmers' Trust Fund. Although 10 retired officers had been appointed by paying allowances of Rs.1,490,000 in the year 2014 to recover the short term loan balance of Rs.44,255,850 of the Revolving Fund assigned to that Fund, unrecovered loans amounting to Rs.39,967,891 have been further brought forward in the financial statements since 2019.

Comment of the Management

As the farmers who made requests at the beginning of the project have not presented themselves to get the loan, the amount has been saved and returned to the fund.

As an initial step to take legal action, a complaint has been lodged at the Polonnaruwa Police Station.

Based on the information ascertained by the officers appointed in the year 2014 to investigate the outstanding loan balances, the respective loan balances have been recovered from the farmer committees in installments and a certain amount has been sent to the Farmer Trust Fund. This balance has decreased to Rs.39,960,891 at present.

Recommendation

Plans should be implemented as expected.

Gap certificates should be issued to the farmers and the loan amount should be settled according to the plan.

Action should be taken to recover the loan.

<p>(d) Out of the loan of Rs.3,500,000 provided to the private company named "Prime Herb Lanka" in 2003, a sum of Rs.860,000 and accrued interest of Rs.676,666 further remained recoverable. As the Fund has been informed that this company has stopped its business operations and the person who obtained the loan has died, a reasonable investigation should have been conducted on the recoverability of the loan and accordingly, action should have been taken to recover the dues or to initiate necessary legal measures, it had not been so done.</p>	<p>It has been informed to take legal action against this company and letters of demand have also been sent. As the deadline given for that purpose has expired, arrangements are being made to take action after seeking the advice of the Attorney General in this connection.</p>	<p>Action should be taken to recover the loan.</p>
<p>(e) A loan of Rs.11,370,000 had been granted to 63 farmers producing big onion seeds by the year 2016. As the loan had not been recovered according to the agreed conditions, a sum of Rs. 4,244,583 had not been recovered as at 31 December 2021.</p>	<p>This loan has been granted to the farmers by the Farmer Banks through the Department of Agrarian Development. The remaining balance is being recovered in installments.</p>	<p>Action should be taken to recover the loan as agreed.</p>
<p>(f) A sum of Rs.90,000,000 had been given to the Commissioner General of Agrarian Development to be disbursed to 10,000 farmers growing maize in Anuradhapura district under the condition of recovery within one year in the year 2015. Although 5 years had elapsed as at 31 December 2021, a balance of Rs.24,421,032 further remained recoverable.</p>	<p>The remaining balance of the loan given to the farmers through the Farmer Banks of the Department of Agrarian Development is being recovered in instalments. The Department of Agrarian Development constantly informs to recover the balance expeditiously.</p>	<p>Conditions should be followed in the recovery of loans.</p>

3.3 Transactions of Contentious Nature

Audit Observation

Without being utilized the money to implement the main objective of establishing the Farmers' Trust Fund, the funds of the Trust Fund had been continuously invested in fixed deposits and Treasury Bills. A sum of Rs.365,001,919 had been invested in fixed deposits and Rs.97,821,406 in treasury bills and earned Rs.26,512,574 as interest income as at 31 December 2021.

Comment of the Management

The interest income earned by investing excess money of the fund in the government banks so as to get the maximum benefits will be used effectively for the development programmes and various loan programmes of the small farmers of the country. Accordingly, every possible effort has been made to maintain the fund without being a burden to the General Treasury.

Recommendation

The funds should be utilized to achieve the main objective of establishing the Trust Fund

4. Accountability and Good Governance

4.1 Tabling the Annual Performance Report in Parliament

Audit Observation

In terms of Section 877(2)(d) of F.R. inserted by paragraph 15.1 of Part I of State Finance Circular No. 01/2020 dated 28 August 2020, the Fund should submit a Performance Report together with the financial statements of that Fund to the Auditor General with a copy to the State Finance Department. Nevertheless, the Trust Fund had not submitted the Performance Report to the Auditor General.

Comment of the Management

Action will be taken to submit the Performance Report on time in due course.

Recommendation

Action should be taken in accordance with the circular.

4.2 Internal Audit

Audit Observation

According to Section 40 of the National Audit Act No. 19 of 2018, although an internal auditor should be duly appointed by the governing body of the entities to carry out internal audit activities, the Trust Fund had not appointed an internal auditor.

Comment of the Management

The Internal Auditor of the Ministry of Agriculture performs the Audit activities.

Recommendation

An Internal Auditor should be appointed.

4.3 Budgetary Control

Audit Observation

In terms of Section 877(2)(d) of Financial Regulation inserted by paragraph 15.1 of Part I of State Finance Circular No. 01/2020 dated 28 August 2020, although the budget for the current year should be forwarded to the Director General of National Budget for the approval of the Treasury before 30 September and a copy thereof should be forwarded to the Director General of State Finance, expenditure of Rs.28,164,693 had been incurred during the year without so forwarding the budget.

Comment of the Management

In the preparation of the budget, the value of the continuous projects has also been included. Action will be taken to forward the budget before the due date in the future.

Recommendation

Approval of the General Treasury should be obtained for the budget.