

Farmers' Trust Fund - 2015

The audit of financial statements of the Farmers' Trust Fund for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, the statement of changes in equity and the 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 18 of the Trust Deed entered into between the Democratic Socialist Republic of Sri Lanka and the Trustees of the Fund on 09 March 1994. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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 Auditing 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 judgment, 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 Farmers' Trust Fund as at 31 December 2015 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 Lack of Evidence for Audit

In consolidating the Revolving Fund and the Agricultural Trust Fund in the year 2002, the following assets and liabilities amounting to Rs.81,147,096 which existed in the above Funds had been transferred to this Fund. Nevertheless, the evidence indicated against each item had not been made available to audit for the confirmation of those balances.

Item	Value (Rs.)	Evidence not made available to Audit
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Current Assets		

(a) Savings Account	7,241,655	} Letters of Confirmation of Balances
(b) Deputy Commissioner of Agrarian Services –(Agricultural Trust Fund)	1,679,901	
(c) Farmers Companies	8,200,000	
(d) Debtors Control Account (Agricultural Trust Fund)	7,923,175	List of debtor balances
(e) Debtors Control Account - Revolving Fund	44,200,176	Detailed Schedules
Non-Current Assets		

(a) Long Term Loans receivable– Agrarian Services Committee Account	9,112,579	} List of debtors balances
(b) Board of Spices and Allied Products	1,500,000	
Non-current Liabilities		

Farmers' Deposits	697,644	Register of Deposits

Net Assets/Equity

Shares	591,965	Register on Shares of Shareholders
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81,147,095

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2.3 Accounts Receivable

The following observations are made.

- (a) Even though a third party had been appointed in October 2014 to recover four balances totalling Rs.8,054,388 shown under the advances and not settled over a period exceeding 10 years, those loans had not been recovered as yet.
- (b) A sum of Rs.98,023,448 recoverable from the National Livestock Development Board relating to the period from the year 2003 up to 2011 had not been recovered even up to the end of the year under review and it represented 83 per cent of the total loan amount.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2015 had been a surplus of Rs.34,053,478 as against the deficit of Rs.11,814,015 for the preceding year, thus indicating an improvement of Rs. 45,867,493 in the financial result of the year under review as compared with the preceding year. The decrease in development expenditure by Rs. 71,120,185 despite the decrease in interest income by Rs.26,116,366 as compared with the preceding year had mainly attributed to the above improvement.

In analyzing the financial results from the year 2011 up to the year under review, a financial surplus was observed in every year except in the year 2014. The contribution of the Fund had taken a positive value in considering the employees' remuneration, income tax and depreciation in every year except in the year 2014. Nevertheless, the contribution had deteriorated in the years 2013 and 2014 by 94 per cent and 175 per cent respectively as compared with preceding years. However, it had improved by 457 per cent again in the year under review and the development expenditure incurred by the Fund had directly affected the fluctuations in the contribution.

4. Operating Review

4.1 Performance

The Farmers' Trust Fund had been established to achieve the objectives such as , promoting agricultural development and welfare of the farmer community in Sri Lanka, provisions of Short – Term loans to small farmers, provisions of agricultural inputs to small farmers, provisions of marketing loan facilities to small farmers to overcome their financial

difficulties, undertaking pilot schemes of promotion of agricultural development and welfare of small farmers including awareness programmes, demonstration and exhibitions and other activities incidental thereto, providing small farmers with other kind of patronage in respect of crops and animal production and processing, and implementing special agricultural development programmes to facilitate agricultural development. The following matters were observed in the examination carried out in respect of the achievement of above objectives.

(a) Promoting agriculture development and welfare of the farmer community

Even though a provision of Rs.170,200,000 had been made for the development activities according to the Budget of the Fund for the year 2015, seventy two per cent of that provision had not been utilized during the year under review. It was further observed that 15 projects planned to be implemented had not been implemented.

(b) Provision of Short – Term loan facilities to small farmers

- (i) Out of the 12 projects estimated to be implemented from the provisions made under short term loans, only 02 projects had been implemented. Thus, only 45 per cent out of the entire provision of Rs.40,610,495 had been utilized.
- (ii) Out of the sum of Rs.21,361,038 granted to the District Secretary of Anuradhapura, National Food Promotion Board and Director General of Agriculture as short term loans during the year under review, only Rs.7,908,500 had been recovered by 30 June 2016, the date of audit while it represented 37 per cent of the loan granted.
- (iii) It was observed that, out of the total loan amounting to Rs.285,000,000 which was estimated to be granted during the year , only 32 per cent had been granted as loans during the year.

4.2 Management Activities

The following observations are made.

- (a) Out of the advances granted during the years 2013 and 2014 for development activities, sums amounting to Rs.1,749,740 and Rs.958,687 respectively had remained outstanding further as unsettled balances. Delay in the settlement of advances granted during the preceding years had affected the decrease in the development expenditure of this year by 79 per cent.
- (b) A provision of Rs.40,000,000 had been made for granting loans to the farmers under the long term loans to purchase paddy planting machines with a view to increasing paddy harvest in the North Western Province. Nevertheless, this Project could not be implemented during the year under review due to the delays in solving issues regarding the process of selecting farmers and granting loans.

5. **Accountability and Good Governance**

5.1 **Budgetary Control**

Significant variances ranging from 51 per cent to 100 per cent were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.2 **Annual Action Plan**

Action had not been taken to prepare an annual action plan for the year 2015 in terms of Paragraph 4 of Circular No.PFD/RED/01/04/2014/01 of 17 February 2014.

6. **Systems and Controls**

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

Areas of Systems and Controls	Observations
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(a) Debtors Control	Delay in the recovery of loan balances and in taking action on unidentified loan balances.
(b) Utilization of Funds	Non-utilization of funds for the payment of loans and incurring the development expenditure as estimated.