

Agrarian Development Fund - 2013

The audit of financial statements of the Agrarian Development Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 judgment, including the assessment of the risks of material misstatement 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 on the basis of the matters described to the paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, subject to the effects of the matters described in paragraph 2.2 of the report, the financial statements give a true and fair view of the Agrarian Development Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Unexplained Differences

The following observations are made.

- (a) Reconciliation of the cash balance of the Fund with the Treasury books revealed that a difference of Rs.651,797 is existing over a period exceeding 06 years and that action had not been taken even by 31 March 2014 to identify and settle the difference.
- (b) A difference of Rs.53,491 was observed between the balance of the Tractor Trailer Loan Account shown in the financial statements and the balance in the schedule furnished by the Institutional Development Division.

2.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) The installments for the agricultural equipment distributed to the Agricultural Committees and the Farmer's Societies by the Ministry under the "Japan Yen Aid Programme" should be recovered and remitted to the Ministry of Agriculture. Even though a sum of Rs.70,761,153 had been collected during the year under review only a sum of Rs.68,221,424 had been remitted.
- (b) The balances of the Sprayer Machines Deposit Account and the Bulldozer Deposits Account amounting to Rs.10,746,805 had been shown under the current liabilities over a period exceeding 07 years without being settled.
- (c) Dormant loan balances amounting to Rs.6,859,216 were observed in the Accounts Receivable. An effective course of action had not been taken for the recovery of these balances existing over a period of about 07 years.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka <hr/> (i) Financial Regulation 104 (ii) Financial Regulation 371 (2) (b) (iii) Financial Regulation 371 (2) (c)	 According to the financial statements the stock shortages identified prior to the year 2006 amounted to Rs.450,000. Instead of taking action to determine those responsible for the shortages it had been shown continuously in the financial statements as the stock shortages. Even though the ad hoc sub-imprest that can be granted in one instance should not exceed Rs.20,000 payments totaling Rs.4,181,076 exceeding that limit had been made in 11 instances. Out of the advances amounting to Rs.808,231 granted during the year under review for 05 projects, sums totaling Rs.717,685 had been settled as at the end of the year under review either without carrying out the entire activity or carrying out about 25 per cent of the activity.
(b) Paragraph 4 (1) (c) of the Public Finance Circular No. PF/423 of 22 December 2006	Even though expenditure should not be incurred without an approved budget estimate, contrary to that requirement expenditure amounting to Rs.4,676,187 had been incurred on 13 activities not approved.

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.12,827,826 as compared with the corresponding surplus of Rs.4,492,719 for the preceding year. Accordingly as compared with the preceding year, an improvement of Rs.8,335,107 in the financial results was indicated. The increase of the income

from acreage tax by a sum of Rs.7,455,026 had been the main factor for the improvement in the financial results.

4. Operating Review

4.1 Management Inefficiencies

Even though the recovery of the installments on the tractors and water pumps distributed in each year by the Ministry under the Japan Yen Aid Programme is a responsibility of the Fund, the progress of recovery had been very slow. The arrears of installments as at the end of the year under review amounted to Rs.521,789,207.

4.2 Underutilised Assets

Even though water recording manuals, water recording Albums, Manuals on Rural Irrigation Channels had been printed in the years 2010/2011 at a cost of Rs.8,227,329 it was observed that the distribution of those books among the relevant parties had been very slow. Out of the 41,300 books printed, the balance as at the end of the year under review had been 37,039.

5. Accountability and Good Governance

5.1 Budgetary Control

The following observations are made.

- (a) The provision of Rs.3,100,000 allocated in the budget for the year under review for 06 development works had not been utilized.
- (b) Significant variances existed between the budgeted and the actual amounts and as such the budget had not been made use of as an effective instrument of 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) Maintenance of Registers of Fixed Assets and Stock Books
- (b) Settlement of Deposit Account
- (c) Recovery of Loans
- (d) Utilisation of Assets
- (e) Grant of Advances