

Agrarian Development Fund - 2015

The audit of financial statements of the Agrarian Development 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, 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 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 judgement, 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 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 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 Sri Lanka Public Sector Accounting Standards

A statement had not been presented to indicate the movement of the property, plant and equipment in terms of the Sri Lanka Public Sector Accounting Standard 07.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The expenditure of capital nature amounting to Rs.2,447,350 incurred during the year under review had been written off against the income as an expenditure of the year.
- (b) Balances of the Spraying Machines Deposit Account and Bulldozer Services Deposit Account totalling to Rs.10,746,805 shown as current liabilities in the accounts for a period of over 05 years and not credited to the Government Revenue had been brought to account as an income of the year under review.
- (c) The publications and maps belonging to the Fund had not been physically verified at the end of the year and book balances had been shown in the financial statements. According to the examination carried out in audit, it was observed that issue of publications valued at Rs.2,320,800 and maps and the hand books of meeting of harvest seasons valued at Rs.354,400 which remained as at the end of the year, had been omitted from accounts.

2.3 Unexplained Differences

The following observations are made.

- (a) Action had not been taken to identify and settle the difference of Rs.651,797 existing from the year 2008 between the cash balance of the Fund and the cash balance as per Treasury books.
- (b) A difference of Rs.6,477,732 was observed between the amount shown in the financial statements as installments recovered in the year under review for tractors distributed under the Japan Yen Grant Programme and the amount of the schedule submitted by the Development Division.

- (c) Even though the income from acreage tax amounted to Rs.19,712,878 according to the financial statements, it was Rs.13,942,012 according to the progress report of the Development Division thus indicating a difference of Rs.5,770,866.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) The arrears of installments recoverable as at 31 December 2015 for the tractor trailers supplied to the Agrarian Service Centres and Farmers' Societies in the year 1995 amounted to Rs.6,194,575 and suitable actions had not been taken to recover it.
- (b) An effective course of action had not been taken for the recovery of the audit fees amounting to Rs.16,650 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 .

2.5 Lack of Evidence for Audit

Even though a sum of Rs.415,676 had been spent for the programme of training the representatives of the Farmer's Societies and Agricultural Research and Production Assistant Officers of 05 Districts, a Register with the signatures of the participants was not made available.

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

Advances amounting to Rs.538,459 obtained in the year 2015 in terms of Financial Regulation 371(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka had not been settled even by the end of March 2016.

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.30,368,913 as compared with the corresponding surplus of Rs.15,096,452 for the preceding year, thus indicating an improvement of Rs.15,272,461 in the financial results as compared with the preceding year. Accounting the liabilities of Rs.10,746,805 unsettled for over a period of 05 years as an income of the year under review, increase in income from the acreage tax by Rs.3,396,556 and decrease in expenditure of depreciation by Rs.220,000 had mainly attributed to the improvement of the financial result.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Enforcement of new agricultural policies, improvement and development of supplies, administration and development of the Agrarian Centre, maintenance of buildings, motor vehicles and equipment in centres and training of officers had been stated as the main objectives of the Fund.
- (b) Even though a sum of Rs.1,000,000 had been allocated to encourage the production of local paddy according to the budget estimate, that function had not been fulfilled.

4.2 Management Inefficiencies

The following observations are made.

- (a) Recovery of the installments for the tractors and water pumps distributed by the Ministry of Agriculture under the Japan Yen Grant Programme was in a sluggish position and the outstanding installments as at 31 December 2015 amounted to Rs.408,794,219. Installments of Rs.11,663,259 and Rs.139,473,690 for 491 two wheel tractors and 440 four wheel tractors respectively outstanding for a period of 03 to 30 years as at 31 December 2015 had been included in this outstanding amount and no recoveries whatsoever had been made in the year 2015.
- (b) A sum of Rs.1,041,261 had been outstanding as at 31 December 2015 for 54 water pumps provided to 02 Districts in the year 2010 and no installments whatsoever had been recovered for these water pumps in the year 2015.
- (c) Action had not been taken to identify the officers who were responsible for the shortage of stocks of Rs.450,000 identified before the year 2006 and to recover that amount.
- (d) Installments of Rs.1,180,100 for water pumps had been received in the year under review and out of that, only a sum of Rs.500,000 had been sent to the Ministry.

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 – Reducing the variance between the budgeted income and expenditure and the actual income and expenditure.
- (b) Assets Management – Accurate accounting of stocks and to carry out physical verification.
- (c) Settlement of Deposit Accounts – Settling the difference of the balance according to Treasury books brought forward from the year 2008 and the balance of the Fund.
- (d) Recovery of Loans – Recovery of tractor loan installments outstanding from the year 1995.