

Farmers' Trust Fund - 2016

The audit of financial statements of the Farmers' Trust Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 aforesaid 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 2016 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 Accounting Deficiencies

The following observations are made.

- (a) The surplus of the year under review had been decreased by a sum of Rs.100,000 due to adjusting to the profit in the preceding year under the adjustments of the prior year in settling the Advance amounting to Rs.100,000 provided in the year under review by the District Secretary, Polonnaruwa for the construction of a cultivation well.
- (b) The Accumulated Fund and the balance of the Advance Account on noting twice the Settlement Journal Voucher in settling the Advance amounting to Rs.315,000 provided under the First Phase to construct a Fertilizer Store in the Wendaruwa Agrarian Service Centre in Kandy in the year 2014.

2.3 Accounts Receivable

Sixteen loan balances amounting to Rs.140,177,028 relating to 5 types of loans belonging to the period between 3 years to 15 years remained as at 31 December 2016 and, even though recommendations had been furnished by the Board of Survey of Loans appointed in the year 2014 relating to recovering those loan balances, they had not been recovered even by 25 July 2017.

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 2016 had resulted in a surplus of Rs.32,499,321 as compared with the corresponding surplus of Rs.10,311,493 for the preceding year, thus indicating an improvement of Rs.22,187,828 in the financial result in the year under review as compared with the preceding year. The decrease of the development expenditure by a sum of Rs.23,933,954 had mainly attributed to the above improvement.

In analyzing financial results of 04 preceding years and in the year under review, a financial surplus had indicated in the other years excluding the year 2014. However in adjusting personnel emoluments, income tax and depreciation for non- current assets to the financial result again, the contribution of the Institution amounting to Rs.219,305,053 in the year 2012 had been decreased by 94 per cent in the year 2013 and it had been a minus value of Rs.9,954,152 in the year 2014. It had again indicated a continuous increase of Rs.11,795,697 and Rs.34,591,280 respectively in the years 2015 and 2016.

4. Operating Review

4.1 Performance

The Farmers' Trust Fund had been established to achieve the objectives of the improvement of the agricultural development and welfare of the Agrarian Community in this country, provision of short- term agricultural inputs for smallholder farmers, provision of market loan facilities to stallholder farmers for avoiding financial difficulties, raising awareness relating to agricultural development and welfare of smallholder farmers, conducting exhibitions and demonstrations and the implementation of regulatory programmes for other various activities, assisting smallholder farmers for the plant and animal production and the production process and the implementation of special agricultural work for the provision of facilitating to the agricultural development. The following matters were observed at the examination carried out relating to the achievement of the above objectives.

- (a) Matters such as the provision of agricultural inputs to smallholder farmers and the animal production process as well as the provision of other necessary sponsorships for production processing, out of the main objectives of the establishment of the Trust Fund had not been included into the Expenditure Estimate.
- (b) Even though a sum of Rs.142,360,517 had been estimated for the execution of 41 projects under this Fund in the year under review, only 27 projects had been initiated and a sum of Rs.44,616,377 had been released in this connection. A Performance Report including the physical and financial progress of the projects had not been prepared in the year under review and 14 planned development programmes had not been initiated on various reasons.
- (c) A sum of Rs.53,262,500 allocated for Advances and a sum of Rs.7,299,700 allocated for 05 development projects for short- term loans by the Revised Estimate had not been saved without being spent in the year under review due to not accurately identifying the financial requirements of the Institutions remaining under the Ministry of Agriculture.
- (d) Even though a sum of Rs.128,535,580 had been allocated in the year under review for 05 projects under long- term loans, a sum of Rs.38,197,000 had been released only for 03 projects and the projects of providing planting machines by the Agrarian Banks of the North Western Provincial Council and providing motor bicycle loans had not been implemented.

- (e) A sum of Rs.4,060,000 had been provided for the construction of 06 paddy- drying threshing- houses in the year under review and, it was observed at the physical test check carried out in this connection that 04 threshing- houses out of them had not been constructed in compliance with appropriate standards and their interior had been cracked due to this reason and water had been collected in the interior of threshing- houses. Moreover, 02 threshing- houses constructed in private lands had not been properly conveyed to the Government. Further, the amounts of square feet had been differed from each other and even the price rates had been differed due to not preparing the necessary specifications for the construction of 6 threshing- houses and it was observed that even the damages caused by animals could not be prevented due to not including the construction of a safety fence around threshing- houses, into the plans.
- (f) Sums of Rs.5,000,000 and Rs.19,000,000 respectively had been allocated for the Wakgal Modara Sea Water Control Project initiated in the year 2013 and for Minor Irrigation Rehabilitation Projects in Vavuniya and Monaragala districts and even though sums of Rs.5,300,000 and Rs.12,118,640 had been released, bills had not been furnished for work amounting to Rs.2,615,513 and amounting to Rs.1,744,000 respectively by the end of the year under review.

4.2 Management Activities

The following observations are made.

- (a) The balances had not been conferred with the lists of the Detailed Schedules, Confirmation of Balances and Debtors Balances in consolidating the Revolving Fund and the Agrarian Trist Fund to the Farmers' Trust Fund in the year 2002, in conferring the assets and liabilities amounting to Rs.171,792,093 remained in those funds to the Farmers' Trust Fund. As such, even though Boards of Survey had been appointed from time to time, the Management had failed to confirm those balances up to the end of the year under review.
- (b) It was observed that there is a risk of the occurrence of a financial loss to the Institution in the instance where the tax money should have to be paid with a surcharge in the future on not taking action to pay the tax money up to 25 July 2017 despite a sum of Rs.29,665,397 had been allocated as income tax payable as at the end of the year under review on not completing the necessary activities to release the Institution from the income tax interest.
- (c) Power had been conferred to a Secretary to the Ministry to take action relating to damages which do not exceed a sum of Rs.2,000,000 in the instance where a fraud or an error in the remaining system does not exist as per Part I (d)(ii) of the Public Finance Circular No.02/2016 of 12 February 2016. However, damages amounting to Rs.1,461,220 which occurred due to the errors remained in the existing system such as delaying of carrying out inquiries relating to the damages occurred to the paddy purchased by the Advances in the years 2004/2005 in terms of the Financial Regulation 104, occurrence of deficits of rice and ruining of rice in the store, not recovering money provided up to the instance where the Agrarian Companies become inoperative, had been set- off on the approval of the Secretary to the Ministry.

- (d) It was observed that an accurate position had not been indicated by the financial result of the Institution on the Management not paying attention to receive the Payment Vouchers of the Advances provided for the execution of the development activities to the District Agrarian Centres before the end of the relevant year.
- (e) A total sum of Rs.1,000,000 had been released on 16 November 2015 and on 04 March 2016 through the Agrarian Bank, Kurunegala on the basis of making payments and being exempted within the forthcoming two years after an year of exemption for the Organic Redlady Papaw Plantation of 05 acres in extent to a person who could be identified as a person who maintains large- scale business activities despite the provision of agricultural loans to smallholder farmers had been a main objective of the Institution. Moreover, even the second loan installment had been released on 04 March 2016 despite even the initial loan installment deposits from the guarantors not being received, without considering the above condition. Even though the period of concession of repaying loans had been exceeded by the date of audit of 31 May 2017, the Institution had not received even the initial loan installment and even a procedure of recovering loans had not been implemented.
- (f) Advances had been provided over again without settling the Advances provided in the year 2014 to the Commissioner General of Agrarian Development for 04 development projects, District Secretary, Kegalle and to the Northern Provincial Council and the Unsettled Advance Balance amounting to Rs.3,999,419 as at the year 2014 had been a sum of Rs.6,790,587 by the end of the year under review. Action had not been taken accordingly even in the current period despite there had been prior experiences where older Advance Balances should have to be set- off as loss on not taking action to settle the provided Advances timely.

4.3 Operating Activities

The following observations are made.

- (a) A sum of Rs.90,000,000 had been given to the Department of Agrarian Development in the year 2015 for providing loans for the farmers who cultivate corn in the Anuradhapura District (2015/16 Maha Season) and a sum of Rs.80,790,000 of it had been released as short- term loans, a sum of Rs.15,000 each to 5386 farmers through Agrarian Banks. Even though it had been informed that the loan should be settled within a period of one year, a sum of Rs.54,012,653 remained as the amount further recoverable to the Farmers' Trust Fund even by 31 May 2017. Even though a sum of Rs.900,000 remained further receivable of the sum of Rs.9,210,000 which had not been distributed to the farmers as per the File, action had not been taken to receive it from the Department of Agrarian Development even up to 25 July 2017.
- (b) Provisions amounting to Rs.4,000,000 had been given to the District Secretariat, Kegalle for the construction of 44 agrarian wells in the year under review and it was observed in examining a sample of 15 wells in March 2017 that an over- payment amounting to Rs.125,809 had been made for 5 agrarian wells despite work not being completed according to the standards and conditions mentioned in the Bill of Quantities.

4.4 Personnel Administration

Six officers of the Ministry of Agriculture had been attached for carrying out the functions of the Fund and two officers out of them had been appointed for the Accounts and Control Activities Management. A sum of Rs.119,445 had been paid in the year under review as acting salaries for those two officers. However, weaknesses such as the progress of recovering loans remaining at a low level, providing Advances over again despite unsettled loans being remained, delay in the recovery of loans, setting- off of the non- recoverable loans, not properly updating the Loan Registers and the maintenance of File not remaining in a satisfactory level.

5. Accountability and Good Governance

5.1 Action Plan

An Annual Action Plan relating to 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.

5.2 Budgetary Control

As variances ranging from 15 per cent to 100 per cent between the budgeted and actual income and expenditure were observed, thus indicating that 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 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

(a) Receivable Loan Balances

Delay in recovering loan balances and the delays remaining in taking action relating to the unidentified loan balances.

(b) Loan Management

Providing loans contrary to the objectives of the Institution, agreements being incomplete, not having a general policy relating to the procedure in the provision of loans and the percentage of interest, weaknesses remaining on the maximum limit of the loans and depositing securities.

(c) Contract Administration

Not completing projects within the planned period, not carrying out follow- up action in the projects, not preparing accurate estimates, providing Advances on incomplete agreements, not preparing Progress Reports.

(d) Provision of Advances

Not taking action to settle the Advances provided to various operative Institutions for development projects by the end of the year.