

## **Agrarian Development Fund - 2016**

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The audit of financial statements of the Agrarian Development 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, 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**

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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**

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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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 2016 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Accounting Deficiencies**

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The following observations are made.

- (a) Jaladhara album stocks account and Jaladhara manual stocks account had been shown excessively by a sum of Rs. 112,000 and a sum of Rs. 773,760 respectively.
- (b) Office equipment procured in the year under review for Rs. 93,740 had not been accounted as assets, and had been written off against the revenue as an expenditure of the year. Therefore the depreciation of office equipment had been understated in the financial statements by Rs. 9,374.

#### **2.2.2 Un-explained Differences**

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The following observations are made.

- (a). Action had not been taken to identify and settle the difference of Rs.651,798 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. 93,750 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. 26,136,708 according to the financial statements, it was Rs. 22,101,511 according to the progress report of the Development Division thus indicating a difference of Rs. 4,035,197.
- (d). A difference of Rs. 359,733 was observed in income from entrance ticket charges with compared to the receipt vouchers and the statement of financial performance.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The arrears of installments recoverable as at 31 December 2016 for the tractor trailers supplied to the Agrarian Service Centers and Farmers' Societies in the year 1995 amounted to Rs. 1,445,025 and suitable actions had not been taken to recover it.
- (b) Actions had not been taken to recover the advances amounting to Rs.543,000 granted in the year 2012 for the construction of the Tissue Culture Laboratory at Wanathawilluwa .
- (c) 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 the end of the year under review amounted to Rs. 388,184,868. Installments of Rs.11,663,259 and Rs.123,615,421 for 491 two wheel tractors given to 16 Districts and 473 four wheel tractors given to 22 Districts respectively outstanding as at the end of the year under review had been included in this outstanding amount and no recoveries whatsoever had been made during the year under review.
- (d) A sum of Rs. 201,405 had been outstanding as at the end of the year under review for 85 water pumps provided to Farmers and Agrarian Organizations in 03 Districts in the year 2010 and no installments whatsoever had been recovered for these water pumps during the year under review.

### **2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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As per the paragraph (b) of Public Finance Circular No . 03/2015 dated 14 July 2015, though the advances taken should be settled immediate after the completion of the said activity, 16 instances of advances given in the year under review aggregating Rs. 6,343,175 had not been settled even as at 31 March 2017.

### **2.5 Transactions not Supported by Adequate Authority**

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Balances of the Spraying Machines Deposit Account and Bulldozer Services Deposit Account aggregating to Rs. 10,746,805 shown as current liabilities in the accounts for a period of over 05 years had been accounted as revenue in the year 2015 and the balance of Cycle Installment Deposit Account amounting to Rs. 1,214,466 had been accounted as revenue in the year under review without having any authorization.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Fund for the year under review had resulted in a surplus of Rs. 54,228,626 as compared with the corresponding surplus of Rs.30,368,913 for the preceding year, thus indicating an improvement of Rs. 23,859,713 in the financial results as compared with the preceding year. Increase in the ticket fees by Rs. 13,772,215 and increase in tractor and trailer income by Rs. 17,159,610 had mainly attributed to the improvement of the financial result.

### **4. Operating Review**

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#### **4.1 Performance**

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As per the paragraph 97 of Agrarian Development Fund Act No. 46 of 2000, 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 centers and training of officers had been stated as the main objectives of the Fund.

The followings observations are made.

- (a). As per the budget estimates, a sum of Rs. 1 million for training of Agrarian Research and Production Assistant officers, and a sum of Rs. 0.5 million for preparation of management publications had been allocated. The approval had been granted by the Commissioner General of Agrarian Development on 26 May in the year under review to print Agrarian Law Manual from that total amount of Rs.1.5 million and that activity had not been completed even as at 29 May 2017.
- (b). Five hundred twenty two certificates for certifying as non-paddy fields and 596 licenses for using paddy fields to activities other than the agricultural crop had been issued in the year under review without having a procedure or guideline code with proper legal directives.

#### **4.2 Management Activities**

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The shortage of stocks of Rs.450,000 identified before the year 2006 had continuously been shown in the financial statements as shortage of stocks without taking actions to recover that loss from the responsible officers.

## 5. **Accountability and Good Governance**

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### 5.1 **Budgetary Control**

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Significant variances ranging from 27 per cent to 774 per cent were observed in budgeted income and expenditure as compared with 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.

### 5.2 **Action Plan**

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Action plan had not been prepared during the year by identifying the activities of the Fund and allocations of Rs. 14,202,267 had been given for development and maintenance activities of Agrarian Service Centers. Proper supervision of the Department had not been conducted with regard to the progress of the projects implemented by using those allocations.

## 6. **Systems and Controls**

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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.

| <b>Area of System and Control</b> | <b>Observation</b>                                                                                                                                                                                                                          |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| -----                             | -----                                                                                                                                                                                                                                       |
| (a). Accounting                   | Crediting the Accounts balances to the Fund without being identified.                                                                                                                                                                       |
| (b). Budgetary Control            | Existing variances between the budgeted income and expenditure and the actual income and expenditure.                                                                                                                                       |
| (c). Financial Control            | (i) Unsettling the difference of the balance according to Treasury books brought forward from the year 2008 and the Cash balance of the Fund.<br><br>(ii) Not being recovered the tractor loan installments outstanding from the year 1995. |