

Farmers' Trust Fund – 2017

The audit of financial statements of the Farmers' Trust Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Farmers' Trust Fund as at 31 December 2017 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 Standard

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard No.01

The domicile and legal form of the entity and jurisdiction within which it operates, nature of the operations and detail of the major activities, reference to the relevant legislation governing the entity's operations and name of the controlling entity had not been disclosed as per the section No. 150 of the standard.

(b) Sri Lanka Public Sector Accounting Standard No.7

As per the section 69, Assets depreciation should be started only upon the assets are converted to usable condition. But contrary to the above, depreciation of assets had been charged for the whole year of purchase.

2.2.2 Accounting Deficiencies

The balances of Accumulate Fund and the Advance Account at year end had been understated by Rs.630,000 due to error occurred in correction of a entry on forwarding two settlement vouchers for the settlement of Advance amounting to Rs.315,000 provided to construct a fertilizer store in 2014.

2.2.3 Lack of Evidence for Audit

The following observations are made.

- (a) Documentary evidence and explanations had not been furnished to the audit to verify the below balances at the establishment of Farmers' Trust Fund in 2002 by collaborating Revolving Fund and Agriculture Trust Fund.

Details -----	Value -----	Evidence not furnished -----
	Rs.	
(i) Debtors	11,103,076	(i) Debtors age analysis (ii) Balance confirmation letters (iii) Detail schedules
(ii) Farmers' deposits	697,644	Detail deposit schedules
(iii) Shares Account	591,965	Shareholders' name list
 (b) Age analysis for advances amounting to Rs.53,269,600, short term loans receivable amounting to Rs.140,107,383 and long term loans receivable amounting to Rs.178,565,300 as at 31 December 2017 had not been furnished for audit.		

2.3 Accounts Receivables and Payable -----

The following observations are made

- (a) Debtor balances amounting to Rs.140,177,028 belonging to the period between 03 years to 16 years without recovering remained as at 31 December 2017, but provisions had not been made for bad debtors on uncertainty debtors' balances.
- (b) Even though, the Fund is liable for tax as per the Inland Revenue Act, No. 10 of 2006, provisions had been made amounting to Rs.30,204,611 at the end of the year but no tax payment had been made till today.

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

Twenty six equipments valued for Rs.1,102,500 had been purchased for collecting climate data from the provision given from the Farmers' Trust Fund for the Galle District Agrarian Development Department from year 2013 to year 2016 for implementation of wakgalmudara sea water control project, Two high sensitive equipments valued for Rs.316,600 fixed in Thawalama and Baddegama Gin Ganga area, and a Printing machine (plotter) valued for Rs. 600,000 had not been entered in the stock books in the Galle district office of Department of Agrarian services as per the Finance Regulation 751 of Financial Regulation of Democratic socialist Republic of Sri Lanka.

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 2017 had resulted in a surplus of Rs.78,507,032 as compared with the corresponding surplus of Rs.7,374,535 for the preceding year, thus indicating an improvement

of Rs.71,132,497 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.23,157,092 and increase of the interest income by a sum of Rs.47,914,180 had mainly attributed to the above improvement.

In analyzing financial results from the year 2013 to the year under review, a financial surplus of Rs.11,516,238 in 2013 was converted to a loss of Rs.11,814,015 in 2014 and since 2015 it had converted to a surplus and had increased to Rs.78,507,032 at the year under review. Settlements of all advances given for development works in 2012, 2013 and 2015 had been adjusted to prior year adjustment account in the year 2014 was the main reason attributed to the negative result in the year 2014. However, after adjusting staff remunerations, income tax, and depreciation for non – current assets, the contribution of the institute of Rs.13,129,302 in the year 2013, became a negative contribution of Rs. 9,954,152 in the year 2014 and then the contribution had increased upto Rs.80,045,382 as end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planing

As per the section 03 (b) of the Public Financial circular No. 01/2014 dated 17 February 2014, a action plan had not been prepared for the year under review.

4.1.2 Performance and Review

(a) The Farmers Trust Fund had earned income by investing money without taking actions to achieve objectives mentioned in the establishment Trust deed of Farmers' Trust Fund and develop agriculture and welfare of the minor farmers. So such, at the end of the year under review a sum of Rs.775,000,000 had been invested in fixed deposits and a sum of Rs.92,116,951 had been invested in Treasury bills and a 98.06 per cent of income had been earned from the interest of investments. Out of that, only a sum of Rs.21,606,833 had been incurred for development expenses.

(b) Since 2008 action had not been taken to release the income share relevant to this fund from the Govisetha lottery of the National Lottery Board and at the end of the year under review a balance of Rs.2,797,191,269 had shown in the accounts, as receivable from the Treasury to the Farmers Trust Fund but action had not been taken to plan and implement programmes for the shake of Farmer's benefit. As per the Treasury book the balance had shown as Rs.2,778,635,023.

(c) Even though a sum of Rs.496,888,486 had been allocated for 51 projects in the amended budget allocation in the year under review, only 35 projects had been initiated valued for Rs.296,818,486 and a sum of Rs.168,546,076 had been released. So such, a sum of Rs.200,070,000 estimated for 16 projects had not been utilized for any activity.

- (d) Even though funds had been released for 35 projects, only 06 projects valued for Rs.14,892,103 had been monitored by the fund and other projects had been monitored.

4.2 Management Activities

The following observations are made.

- (a) A sum of Rs.600,000 had been released on 16 November 2015 as a loan to a farmer in Morogollagama, for organic red lady papaw plantation without having proper security and even though it had reported that there is no progress in the progress reports. The second loan installment amounting to Rs.400,000 had been released on 04 March 2016 without considering that. The fund had unable to recover the loan installments or initiate legal action by the date of audit of 06 June 2018.
- (b) Ten retired officers had been appointed on a Rs.1,450,000 allowance in April 2016 to give recommendations within 03 months for recovery of loan balances of Rs.44,200,176 which had been transferred at the establishment of Farmer's Trust Fund by consolidating the Revolving fund and Agrarian Trust Fund in 2002. As per the recommendations a sum of Rs.10,874,174 had been identified as recoverable loans and out of that only a minimum amount of Rs.2,351,391 equal to 22 per cent had been recovered as at the end of year under review.

4.3 Idle and Under Utilized Assets

Ten rain gauges seven measuring cylinders and two maps data collection hard discs valued for Rs.245,000 and Rs.19,200 respectively purchased in 2013 for the collection of climate data under the Wakgalmodara sea water control project had been idle over 05 years and had been stored in Galle District office store of Department of Agrarian service and the warrenty periods of those had also been expired.

4.4 Personnel Administration

It was observed that, weaknesses such as the progress of recovering loans remaining at a low level, providing advances over again despite of unsettled advances being remained, time delay in the recovery of loans, setting off of non-recoverable loans due to the lack of permanent staff and therefore, the financial management of the fund had not in a satisfactory level. The Fund had not taken action to prepare a recruitment scheme to recruit permanent staff and get approval Department of the Management Services for the shake of success of those activities.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals and Objectives

The following observations are made.

- (a) Every public institution should act in compliance with the circular No. NP/SP/SDG/17 of 14th August 2017 issued by the secretary to the Ministry of National Policies and Economic Affairs on the '2030 agenda' of the United Nations for Sustainable Development. However, the Farmers' Trust Fund had not aware as to how to function with respect to the duties under preview of their scope.
- (b) Upon being unaware of the said agenda for the year 2030 the Fund had not taken action to identify the goals of the activities relating to sustainable development. So such, according to the objectives identified by the Ministry of Agriculture, action had not been taken to prepare programmes of the Farmers' Trust Funds, and accordingly identify the stakeholders, necessary action to evaluate the performance, and coordinate with other institutions.

6. **Accountability and Good Governance**

6.1 **Budgetary Control**

As variances ranging from 54 per cent to 162 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.

7. **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) Loan control	(i) Recover loan balances without delay and delays remaining in taking action relating to the unidentified loan balances. (ii) Lack of common policy relating to provide loans & interest per cent
(b) Personnel Management	Lack of permanent staff.
(c) Operation Control	(i) Weakness of post monitoring of project. (ii) Haven't prepared correct estimates.
(d) Accounting	Settlement of given advances had not been accounted in the relevant year.