

## **Agrarian Development Fund – 2018**

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### **1.1 Adverse Opinion**

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The audit of the financial statements of the Agrarian Development Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters described in Paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Adverse Opinion**

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I express an adverse opinion based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Auditor's Responsibility in Auditing Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the preparation of Financial Statements.

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Accounting Deficiencies

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Audit Observation	Comments given by the Management	Recommendation
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(a) The amount receivable for 140 water pumps and 2,464 tractors which were provided under the Japanese Aid Project on loans basis to farmers amounting to Rs. 153,986,174 had not been taken in to accounts. Nevertheless, the loan installment that was recovered from the farmers during the year under review amounted to Rs. 27,149,565 had been taken in to accounts as a revenue of the year.	The Tractor Deposit Account has to be analyzed to account for the outstanding installments indicated by audit and a Commission has been appointed by the Commissioner of Agrarian Development for this purpose.	The water pump and tractor installments receivable should be taken in to accounts
(b) The expenditure made for Development of Sales Outlets and Development of Centre Buildings amounted to Rs. 6,197,039 and Rs. 6,069,613 for the year under review respectively had been taken in to accounts as expenditures without capitalization.	Actions will be taken to look into regarding this further and to correct in the financial statements in the year 2019 .	The expenditure made for construction and renovation of the buildings should be capitalized.

- (c) The expenditure made for purchasing shelves and glass cupboards at Agrarian Services Centre in Kuda Wewa, Puttalam District amounted to Rs. 95,500 had been written off as an expenditure without capitalization. Actions will be taken to correct in the year 2019 . The expenditure made on fixing shelves and buying glass cupboards should be capitalized.

### 1.5.3 Unexplained Differences

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#### Audit Observation

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Although the deposit account balance as at 31 December 2018 was Rs. 241,158,980 as per the books of the Fund, the deposit account balance as per the Treasury Books was Rs.241,821,612. Accordingly, actions had not been taken to identify and settle the difference of Rs. 662,632 .

#### Comments given by the Management

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The Committee appointed to look into this matter is currently working with regard to this settlement and it is kindly informed that the actions will be taken to make necessary adjustments to the balance as per the recommendations of the Committee.

#### Recommendation

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Identify the difference in the deposit account and settle it

### 1.6 Accounts Receivable

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#### 1.6.1 Receivables

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#### Audit Observation

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Actions had not been taken for the recovery of a sum of Rs. 6,194,575 receivable for Two Wheel Tractor Trailers and 4 Wheel Tractor Trailers which were given in the year 2010 to the Agrarian Services Centres and the Farmer Organizations even by 31 December of the year under review.

#### Comments given by the Management

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Since these tractors were provided in the years such as 2006, 2008, 2010 and 2012 and as it is not suitable to allow further time to pay installments in arrears, a proposal has been prepared to take over the tractors those do not pay installments furthermore to the Department and to dispose them properly.

Actions should be taken to recover the Tractor Trailer loan installments .

#### 1.6.2 Advances

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#### Audit Observation

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#### Comments given by the Management

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#### Recommendation

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Actions had not been taken for the recovery of advances amounted to Rs. 518,000 provided in the year 2012 for the construction of the Tissue Culture Laboratory in Wanathawilluwa

Action has been taken to send reminders informing to settle the balance of the advance amounted to Rs. 518,000 .

The amount paid to the centre should be charged.

## 1.7 Non- compliance with Laws, Rules and Regulations

Reference to Non- compliance Laws, Rules and Regulations etc.	Non- compliance	Comments given by the Management	Recommendation
Public Finance Circular No. 03/2015 of 14 July 2015 as amended the Financial Regulation 371 (2)	Although the settlements should be made as soon as the work is completed after the advances obtained, the entire advance obtained in the month of December 2018 amounted to Rs. 100,000 had been re-deposited after a delay of 94 days.	The Welfare Association of the Department had agreed to incur a sum of Rs. 100,000 for the Departmental Pirith Ceremony. However, since the staff of the Welfare Association had been transferred by then, until the appointments of new officers of the Welfare Association were made at the meeting of the Officers, it was decided to take that money from the Agrarian Development Fund and accordingly , a sum of Rs. 100,000 has been given on 28 September 2018 as an advance on reimbursement basis for the Departmental Pirith Ceremony.	If the advances could not be used for the purpose, the actions should be taken to settle it immediately .

## 2. Financial Review

### 2.1 Financial Review

The operating result of the for the year under review was a surplus of Rs. 49,014,580 and the corresponding surplus for the preceding year was a sum of Rs. 50,009,002 . Accordingly, a deterioration of Rs. 994,422 was observed in financial results. The decrease of license fees and reclamation revenue by Rs. 9,426,226 , increase of expenditure on enforcement of new agricultural policies by Rs. 1,909,295 and increase of the expenditure on training of officers by Rs. 1,207,905 had been the main reasons for this deterioration .

## 3. Operating Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b> -----	<b>Comments given by the Management</b> -----	<b>Recommendation</b> -----
(a) Even though a sum of Rs. 3,159,355 had been obtained by the Fund in the months of February , March 2018 from 18 candidates for issuing certificates as that are not Paddy Lands and to provide certificates for the use of paddy land for another purpose by the Colombo and Gampaha District Offices during the year under review, those permits had not been issued up to 17 April 2019 .	Comments were not given.	Actions should be taken to carry out the task of obtaining money or the refund .
(b) Actions had not been taken to identify the officers responsible for the shortage of stock identified before the year 2006 amounted to Rs. 450,000 and recover those losses.	A Committee has been appointed to look into this deficiency and it is kindly informed that the actions will be taken to settle the stock balance after receipt of the relevant recommendations.	Actions should be taken to recover the losses identifying the officers responsible for the stock shortage .

### 3.2 Operational Inefficiencies

<b>Audit Observation</b> -----	<b>Comments given by the Management</b> -----	<b>Recommendation</b> -----
Although it had not made expenditures during the year under review or in the preceding years for the Agricultural Researches which were the functions and an activity of the Fund, a sum of Rs. 1,667,675 and Rs. 831,500 had been spent respectively for conducting a Govi Upahara Festival and Govijana Abhimana programme which were not a function of the Fund .	It had been set out in Section 97 (3) of the Act aiming at enforcement of the new agricultural policies, improving supply and development.	Only the functions specified in the Act should be performed.

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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Audit Observation	Comments given by the Management	Recommendation
An Action Plan for the Agrarian Development Fund had not been prepared for the year under review in terms of Public Finance Circular No. 01/2014 of 17 February 2014 .	An Action plan will be prepared from the year 2019 onwards.	An Action Plan should be prepared.