

Agrarian Development Fund – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Agrarian Development Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2021, 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 Qualified Opinion

I expressed qualified opinion 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 qualified opinion.

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

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 intends 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 of the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 skepticism 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. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5. Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

Following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) Due to not deducting the shortage of 08 watersheds albums with a total value of Rs.32,000, the shortage of 108 watersheds manuals with a total value of Rs.34,560 and the value of 40 watersheds manuals of Rs.12,800 sold in the year under review from the watersheds albums and manuals account while preparing the financial statements as at 31 December of the year under review, the stock balance was overstated by Rs.79,360.	This deficiency has arisen due to the non- updating of information on watersheds Albums and watersheds Handbooks and I would like to inform that necessary adjustments will be made in the financial statements by including the correct balances in the year 2022.	watersheds album and watersheds manual balances should be accurately identified and accounted for.
(b) The income of the year under review was overstated by Rs.5,550,014 in the financial statements due to accounting of Rs.5,531,514 of 02 wheeler tractor premium income and Rs.18,500 of water pump premium income received in relation to the previous years, as income of the year under review without crediting to the accumulated fund.	If the tractor premium and water pump premium income received in relation to the previous years are credited to the accumulated fund during the year, as problems arise in making the expenditure of the relevant year, the tractor premium and water pump premium income received during the year under review are not credited to the	The income related to the previous years should be credited to the accumulated fund.

cumulative fund, but was accounted for an income of the year.

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| (c) | Twenty per cent acre tax revenue of Rs.13,274,077 of due from Agricultural Service Centers in relation to the year under review was not adjusted in the financial statements. | Officials were informed to make corrections while preparing the financial statements for the year 2022. | The 20 percent acre tax revenue due for the year should be disclosed in the financial statements. |
| (d) | Out of the proceeds of the permit fees charged, to provide certificates from the Agricultural Service Centers to use paddy land for other purposes and not to be paddy land; a sum of Rs.1,549,148 which is 40 percent due to the Agricultural Development Fund related to the year 2021 and Rs.3,911,914 due related to the years prior to 2021 as at 31 December 2021, were not shown in the financial statements. | The calculation of the value of Rs. 3,911,914 due in relation to the years before 2021 was not done by 31 December 2021 and it was completed by 31 March 2022. Accordingly, the officers were informed to make the necessary adjustments in the financial statements of the year 2022. | The income related to the year, and the receivables of the previous years should be properly identified and disclosed in the financial statements. |
| (e) | As pointed out under accounting deficiencies in the audit report relating to the accounting year 2020, 02 wheeler tractor debtors as at 31 December 2019, were understated by Rs.2,551,196 but it was not corrected even in the year under review. Due to that, the 02 wheeler tractor debtor balance and unpaid premium account was understated by that amount. | Officials were informed to make corrections while preparing the financial statements for the year 2022. | Correct debtors should be taken into financial statements. |

1.5.2 Unexplained differences

 Following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) As per the financial statements as at 31 December 2021, the 2KR project water pump debtor balance was Rs.2,468,003 but according to the debtor schedule, the balance was Rs.2,507,003. Thus, the balance of the water pump debtors and the balance of the unpaid water pump premium account were understated by Rs.39,000 in the financial statements.	Officials were informed to make corrections while preparing the financial statements for the year 2022.	The balances in the financial statements should be reconciled with the relevant schedules.

- (b) As at 31 December 2021, the balance of the general deposit account as per the books of the fund was Rs. 290,216,591, while the balance as per the treasury books was Rs.290,862,305. Accordingly, the difference of Rs.645,714, which has existed for a long time, was not recognized and settled.
- The amount of Rs.6,433 included in the difference has been corrected on 23 February 2022. The committee appointed to look into the difference of Rs.651,797 has suggested that after identifying the transactions that affected the difference, necessary steps should be taken for correction. But this delay has happened due to the fact that the related documents are very old and it is very difficult to find those documents and it takes a long time.
- The difference in the general deposit account should be settled immediately.

1.6. Receivables

Following observations are made.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Action had not been taken by 31 December of the year under review to recover the amount of Rs. 4,112,575, which was given to the agricultural service centers and farmer organizations in the year 2010, for the 02 wheel tractor trailers and 04 wheel tractor trailers and due for a period of 09 years.	Although the local officials had been informed to take action to collect these arrears in the years 2020 and 2021, due to the Covid situation in the country, the officials could not be deployed for field work as planned. Also, it was difficult to collect tractor premiums and water pump premiums due to the economic difficulties faced by the farmers due to the Covid epidemic situation. However, in the year 2022, separate programs have been prepared for the recovery of arrears and even now those programs are being implemented at the initial level.	These loan balances should be recovered promptly.
(b) Although the money due for 02-wheeler tractors given in 2006, 2008, 2010 and 2012 under the Japanese yen aid project should be recovered by 2015, action had not been taken to recover an amount of Rs.116,413,886 even by 31 December of the year under review.	Although the local officials had been informed to take action to collect these arrears in the years 2020 and 2021, due to the Covid situation in the country, the officials could not be deployed for field work as planned. Also, it was difficult to collect tractor premiums and water pump premiums due to the economic difficulties faced by the farmers due to the Covid	These loan balances should be recovered promptly.

epidemic situation. However, in the year 2022, separate programs have been prepared for the recovery of arrears and even now those programs are being implemented at the initial level.

- (c) The 2KR project water pump debtor balance of Rs.2,468,003 and the 04 wheeler tractor debtor balance of Rs.19,617,600, which have been due for more than 05 years, had not been recovered by 31 December of the year under review. -do- These loan balances should be recovered promptly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
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Financial Regulations 371 (5) as amended by Public Finance Circular No. 01/2020 dated 28 August 2020	Although the ad-hoc imprests should be settled within 10 days after the completion of the work concerned after the issuance of the ad-hoc imprests, outstanding advances amounting to Rs.1,330,830 as on 31 December 2021 had not been dealt with as per financial regulations.	All the Deputy/Assistant Commissioners were informed to complete the relevant deficiencies and settle the advances as soon as possible. Accordingly, the advance of Rs.1,075,830 has already been settled and the remaining Rs. 255,000 advance amount will be settled in the year 2022.	The ad-hoc imprests shall be settled within 10 days of the completion of the work.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus /of Rs.8,441,249 and the corresponding surplus in the preceding year amounted to Rs.22,035,319. Therefore, a deterioration amounting to Rs.13,594,070 of the financial result was observed. The reasons for the deterioration were mainly due to the decrease in acre tax income by Rs.9,832,305 decrease in 02-wheeler tractor income by Rs.2,109,974 and increase in the total expenditure by Rs.3,374,183.

3. Operational Reviews

3.1 Management Activities

Following observations are made.

Audit Observation	Management Comment	Recommendation
(a) The financial statements as on 31 December 2021 show a stock shortage of Rs.450,000 from previous years and it has been delayed for more than 10 years to investigate and take appropriate action.	A committee has been appointed to look into the stock shortage, which has been going on since 1996. I will inform the disciplinary department about this and take appropriate action accordingly.	Investigations should be done promptly and losses should be recovered.
(b) Although a fee of Rs.912,000 was charged from an applicant who applied in 2018 to use a paddy land for another purpose, neither the permit nor the refund had been arranged to the applicant as at 31 December 2021.	A service fee of Rs.912,000 was paid on 12 February 2018 in relation to file 7/11/9/CO/2650 applied in the year 2018. As the use of paddy land in the Western Province has been suspended for any other purpose by the date the license should be issued, the license has not been issued and on 07 February 2022, the Colombo District Assistant Commissioner has been informed that an on-site inspection should be conducted on the subject land and a report on the current condition of the land should be called. Necessary measures are currently being taken in this regard.	Necessary settlements should be made without delay.

4. Accountability and Good Governance

Following observations are made.

Audit Observation	Management Comment	Recommendation
(a) Although Rs.10 million has been allocated for the construction of canteen at Talalla Agricultural Service Center in Matara District and canteen at Ruwanwella Agricultural Service Center in Kegalle District, the works were not Carried out due to reasons such as rejection of the tender by the successful tenderer, non-approval of the technical evaluation committee for the recalled tender.	The observation is correct.	Planned tasks should be properly implemented in accordance with the action plan.

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| (b) | Although Rs. 25 million has been allocated to buy and supply tab computers to agricultural research and production assistant officers, due to the inability to implement the necessary training programs at the district level as expected, the money could not be utilized and the digitization program could not be implemented as scheduled. | Although the proposed amount was allocated in the 2021 budget, the digitization program could not be implemented as expected due to the inability to implement the required training programs at the district level. | -Do- |
| (c) | Although 2 million rupees were allocated for the creation of a new accounting software for agricultural service centers, the relevant work was not done showing the epidemic situation in the country as a reason. | It was not possible to complete the procurement activities in the year 2021 due to the Covid epidemic situation in the country.
I would like to inform you that in the coming period of 2022, it is planned to complete the procurement and create the relevant software and make it operational. | Planned activities should be properly implemented in accordance with the action plan. |
| (d) | During the reviewed year and in the previous years, agricultural research activities, which were the function and activity of the fund, had not been carried out, and no money had been allocated for it in the action plan of the year 2021. | Since we do not have the human resources for agricultural research work, we hope to carry out work in this regard in the coming years. | Act to fulfill the functions and activities of the Act. |

4.1 Budgetary Control

Audit Observation

In order to enforce the new agricultural policies, Rs.5 million was allocated to conduct training programs in 25 districts related to the production and use of organic fertilizers, but the work was not done showing the prevailing epidemic situation as a reason.

Management Comment

I would like to point out that due to the situation of the Covid epidemic, although it was not possible to conduct training programs with the participation of the relevant officials, knowledge and information related to the production and use of organic fertilizers were provided using Zoom technology.

Recommendation

The provisions allocated by the budget should be utilized.