

Agrarian Development Fund – 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Agrarian Development Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and notes to the financial statements including material accounting policy 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 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 2023, 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 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

	Audit Observation	Comments of the Management	Recommendation
(a)	Rs.6,252,404 of 20 percent of acreage tax contribution receivable as at the 31 December of the year under review had not been accounted.	The amount of Rs.7,205,581 which was presented to be further recovered for the year 2023 was adjusted to the acreage tax income receivable.	Revenues for the year should be correctly recognized and accounted.
(b)	Rs.7,784,846 of total revenue of tractors and water pumps received for the previous year had been brought to the revenue of the year under review without adjusting to the Consolidated Fund.	The relevant parties have been instructed to correct this mistake by making the relevant adjustment while preparing the financial statement for the year 2024.	Revenue should be properly adjusted.
(c)	Although Rs.4,776,277 received from tractor auctions income during the year under review should be remitted to the Consolidated Fund, it had been accounted as income of the Fund.	It will be corrected while preparing the final accounts in the year 2024.	Action should be taken to remit the income which should be remitted to the Consolidated Fund.

1.5.2 Unexplained Differences

	Audit Observation	Comments of the Management	Recommendation
(a)	There was a difference of Rs.652,147 due to the fact that, even though the balance of the deposit account is Rs.369,653,301 according to the books of the fund, that balance according to the treasury books was Rs.370,305,448.	In the year 2008, the main account of the department and the account of the Agrarian Development Fund were merged and the difference of Rs.651,797 was occurred before the merge. 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 to settle this difference and make adjustments through financial	The difference should be identified and settled.

statements, it has been delayed until now. However, the officers have been informed to take necessary steps to correct this mistake in the future.

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| <p>(b) A difference of Rs.24,695,561 was observed between the balances of the ledger accounts of Water Pumps Debtor accounts, Tractors Debtor accounts, Receivable and Payable Permits accounts as at 31 December of the year under review and the balances as per schedule.</p> | <p>Officers have been instructed to rectify this difference in the preparation of the final accounts of the year 2024.</p> | <p>Schedule balances should be matched with the balances of the financial statement.</p> |
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1.5.3 Evidences not available for Audit

Audit Observation

Assets surveyor for the Rs.94,705,118 cost of Property, Plant and Equipment had not been done and schedules had not been submitted, therefore the accuracy was not confirmed.

Comments of the Management

It was noted to present the relevant schedules in preparing and presenting the final accounts of the year 2024.

Recommendation

Schedules should be maintained for Property, Plant and Equipment.

1.6. Receivable and Payable Amounts

Audit Observation

- (a) Rs.4,112,575 to be charged for the tractor trailers given to agrarian service centers and farmer organizations in the year 2010 had not been recovered.

Comments of the Management

The relevant parties in the Agrarian Development District Offices have been informed and given instructions for the collection of installments, and although the speediness of collection of the related installments is low, the installments are currently being collected.

Recommendation

Actions should be taken to recover the loan balance.

- (b) Although the receivable value for 02 wheeler tractors given under the Japanese yen aid project should be recovered by 2015, Rs.105,097,886 had not been recovered from the farmers.

The relevant parties in the Agrarian Development District Offices have been informed and given instructions in order to collect these installments and although the speediness of collection of the related installments is low, the installments are currently being collected.

Actions should be taken to recover the loan balance.

- (c) The water pump installments for do
Rs.2,433,883 of 2KR project and
Rs.19,240,247 of 04 wheeler tractor
installments which has been due for
more than 05 years and included in
the debtor's balance had not been
recovered from the farmers.

1.7 Non-compliance to Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules and Regulations	Non- compliance	Comments of the Management	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	F.R. 371(2)	Rs.170,000 received in the year 2019 and the advance of Rs.574,460 received in the year under review had not been settled as per the regulations.	The officers were informed to carry out the necessary actions to settle this ad-hoc sub imprest in the year 2024.	Ad-hoc sub imprest should be settled immediately after completion of the given task.
(ii)	F.R. 633(1)	The 60,000 counterfoil books worth Rs.23,804,800 had been printed by a private printing institute against the regulation.	The government printing press was verbally asked to print counterfoil books (counterfoil books which are of financial importance), they were told that it is not possible to print the books by the date of our request. Therefore, the printing of books was done by a private company. The relevant officers were informed to proceed according to F.R. 633 on the relevant printing works in the future.	Procurement should be done according to laws, rules and regulations.
(iii)	F.R. 876(3)	According to the regulation, if there are reasonable grounds for revoke or continued existence of non-statutory	Currently, actions are being taken to obtain approval from the Treasury Operations Department, and after approval,	The fund should be maintained according to the laws, rules and regulations.

funds, even though it should be legislated by an Act of Parliament, it had not been done for the fund. arrangements will be made to maintain an account for the Agrarian Development Fund.

- (b) Treasury Circular No.842 dated 19 December 1978
- The fixed asset register had not been maintained for property plant and equipment worth Rs.94,705,118 shown in the financial statements.
- The fixed asset register will be maintained for property plant and equipment worth Rs.94,705,118 shown in the financial statements in future.
- A fixed asset register should be maintained.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.49,228,195 and correspondingly the surplus of the previous year was Rs.49,078,658. Accordingly, a growth of Rs.149,537 was observed in the operating result.

3. Operating Review

3.1 Management Activities

Audit Observation	Comments of the Management	Recommendation
(a) Rs.5,000,000 given to 05 entrepreneurs in Puttalam district who were selected among the entrepreneurs to build green-houses according to the budget proposals of the year 2023 was returned to the head office at the end of the year without any work being done. Accordingly, that budget proposals were not implemented properly.	Farmer were selected for investment after a field visit and feasibility study for the greenhouse project in Puttalam district. As the farmer's contribution of Rs.1,000,000 was refused to be deposited in the bank account to enter into the final agreement, the crediting of the money reserved for 5 persons had to be suspended. Since there was not enough time to find other farmers and invest this money, it has been submitted again to the head office at the end of the year.	Actions should be taken to use the allocated money in the most effective manner.
(b) According to the agreement made in October 2022 to prepare a management information system for Agrarian Service Committees and Farmers Banks at a cost of Rs.30,970,000, even though the related work should be completed within 07 months under 05 phases,	The work to establish a management system for Agrarian Service Committees and Farmers Banks commenced in October 2022. It was difficult to reach the desired goals due to many practical problems that occurred when the computer system was planned to be established.	The management information system should be prepared according to the agreement.

- the related work had not been completed until 31 December 2023. Plans have been made to establish the computer system as planned in the future.
- (c) Even though Rs.12,000,000 has been allcated for web services for Agrarian Service Committees and Farmers Banks under the implementation of the new agricultural policies included in the action plan and even though Rs.1,570,000 had been obtained from the Department of Agrarian Development on 07 July 2023 to receive the web service and Rs.2,200,000 incurred on 28 June 2023 for security guarantee from money held by Farmer Banks, the work had not been done. The computer software is at the test stage even now and plans are being made to establish and operate this computer system in the near future. The establishment of web service and computer system for Agrarian Service Committees and Farmer Banks should be done properly on due date.
- (d) Any action had not been taken regarding Rs.450,000 of stock shortage shown in financial statements and more than 10 years old. This stock shortage has been shown in the final accounts of the Agrarian Development Fund since 1996, and the committee appointed to look into this has recommended that an investigation be conducted from the parties involved. The disciplinary department will be informed about this and appropriate action will be taken accordingly. Necessary investigations should be done and the loss should be recovered.
- (e) Due to the use and possession of two 02 wheels tractors worth Rs.355,000 by the Agriculture Research Production Assistant without giving to the farmers, which were given under Japanese yen aid to the Maradankadawala Agrarian Service Center in the year 2010, disciplinary proceedings had been initiated against her on 10 March 2016. Even though this officer was retired on 14 January 2021 under Sections 2 and 12 of the Minutes on Pensions, the cost of the tractors had not been recovered by 28 February 2024. Currently, the disciplinary department is carrying out the necessary activities in this regard to take the relevant actions in the future. Completion of disciplinary action and recovery of damages should be taken immediately.

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| (f) | Regarding the acreage taxes related to the Agrarian Development Fund, it could not be confirmed whether the 20 percent acreage tax contribution remitted by the district offices was correctly remitted since the head office did not maintain a register of the acreage tax payable lands. An updated information system was also not implemented in this regard. | The power to make decisions regarding acreage tax income is with the Agrarian Development Committee where the respective land is located and all collections are done by the committee. A register containing full details of these applications is maintained by the respective committee. These documents are carried out by the 565 Agrarian Development Centers scattered all over Sri Lanka and it is not practical to consolidate the documents maintained by these 565 committees and maintain a document at the head office. Maintaining hundreds of thousands of lands scattered all over Sri Lanka through one register can be an ineffective and unproductive task. Also, there is no need to maintain such a document. However, this problem will be solved after the introduction of the new computer system. | The new computer system should be installed promptly and an updated information system should be maintained. |
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4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
(a) Variations between budgeted income and actual income in 06 income subjects ranged from 22.46 percent to 421.47 percent was exist.	The relevant departments have been instructed to prepare more rational revenue estimates as the variability is minimized.	The budget should be prepared more accurately.
(b) Variations between budgeted expenditure and actual expenditure in 05 subjects ranged from 58 per cent to 92 per cent was exist.	All the departments have been informed about making the expenses as to minimize the variation against the budgeted expenses and it is informed that they will be implemented accordingly in the future.	The budget should be prepared more accurately.