

## **Farmers' Trust Fund - 2013**

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The audit of financial statements of the Farmers' Trust Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 18 of the Trust Deed dated 09 March 1994 entered into between the Democratic Socialist Republic of Sri Lanka and the Trustees of the Fund. My comments and observations on the above financial statements appear below.

### 1.2 Trustees' Responsibility for 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 conducting the audit in accordance with Sri Lanka Auditing Standards consistent with the International Standards of Supreme Audit Institutions. (ISSAI 1000 - 1810)

### 1.4 Basis for Disclaimer of Opinion

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As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, statement of financial performance, statement of changes in equity and consolidated funds flow statement.

## 2. Financial Statements

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### 2.1 Disclaimer of Opinion

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Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

### 2.2 Comments on financial Statements

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#### 2.2.1 The Farmers Trust Fund has not been Legally Established

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In terms of the Trust Agreement signed by the Secretary to the Treasury on behalf of the Democratic Socialist Republic of Sri Lanka and the Secretary to the Ministry of Agriculture on 09 March 1994, the Fund has been established for administrative functions to utilize it for achieving of 6 objectives including development of agriculture and welfare of the farmers in getting any percentage from the 'Govi Setha' lottery income and interest income by investing such money. In terms of paragraph 3.3 (b) of the Public Finance Circular No. PF/423 dated 22 December 2006, if there are reasons to maintain such a fund, it should be referred to the Department of Public Finance to enable such fund to legalize by an act of Parliament. Nevertheless it was unable to establish the Farmers' Trust Fund even by 31 December 2013 by an act of Parliament.

#### 2.2.2 Accounts Receivable and Payable

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The following observations are made.

##### (a) Accounts Receivable

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(I) The amount shown in the financial statements as income from 'Govi Setha' lottery 'receivable from Treasury totalled Rs.1,291,557,399 and an age analysis thereon is given below.

Period	Income Receivable
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	Rs.
Less than one year	196,220,108
Between one to 3 years	405,657,200
Between three to 5 Years	101,705,057

Over 5 Years	587,975,034
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Total	1,291,557,399
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Even though the above amount had been shown as receivable from the Treasury, the confirmation of balances had not been obtained and it had not been shown as a liability in the Island Account of the Republic of Sri Lanka. As such it could not be satisfied in audit in respect of the value and the existence of the above amount.

- (II) Eight loan balances older than 8 years shown under the short term loans totalled Rs.113,110,371.
- (III) Three balances amounting to Rs.6, 428,742 shown under the advances had not been settled over a period exceeding 6 years.

(b) Accounts Payable

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Action had not been taken even during the year under review to settle 02 balances of liabilities amounting to Rs. 537, 984 brought forward in the financial statements without being settled over a period exceeding 4 years.

2.2.3 Lack of Evidence for Audit

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The Physical existence of the following balances of assets and liabilities and correctness of its value shown in the Balance Sheet of the Farmers' Trust Fund, could not be satisfied in audit due to the absence of evidence indicated against each item.

Particulars	Balance Rs.	Evidence not made Available
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(a) Short Term Loans Receivable		
(i) Debtors Control Account (Agriculture Trust Fund )	7,923,175	Schedules
(ii) Debtors Control Account - Revolving Fund	44,255,850	Schedules
(b) Long Term Loans Receivable Farmers ' Bank loans	9,112,579	Schedules
(c) Non- current Liabilities Farmers' Deposits	697,644	Schedules

#### 2.2.4 Unidentified Assets

Even though the bank balance of the Savings Account had been shown as Rs.7, 241,655 under Current Assets, no any documentary evidence such as Bank Account Number, Bank Pass Books , and Confirmation of Balances had been furnished to audit to identify the above balance.

### 3 Financial Review

#### 3.1 Financial Results

According to the financial statements presented, The working of the Fund for the year ended 31 December 2013 had resulted in a surplus of Rs. 228,098,352 as compared with the corresponding surplus of Rs.151,447,614 for the preceding year, thus observed a net improvement of Rs. 76,650,738 in the financial results. The increase of income by a sum of Rs. 45,840,229 and decrease of expenditure by a sum of Rs. 30,810,509 had been the main reasons for this improvement.

#### 3.2 Analytical Financial Review

(a) According to the financial statements presented, the financial results of the Fund for the year ended 31 December 2013 as compared with the position for the year ended 31 December 2012 are given below.

Income	2013	2012	Difference as a Percentage Increase / (Decrease)
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	Rs.	Rs.	
Govi Setha Lottery income	196,220,108	162,211,860	21
Interest Income	116,914,876	104,748,395	12
Miscellaneous Income	375,500	710,000	(47)
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Total Income	313,510,484	267,670,255	17
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Expenditure			
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Development Expenditure	83,665,076	114,379,705	(26)
Other Expenditure	1,747,056	1,842,936	(5)
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Total Expenditure	85,412,132	116,222,641	(26)
	=====	=====	
Total Surplus	228,098,352	151,447,614	50

Provisions for Income Tax	(2,280,984)	(1,514,476)	
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Surplus	225,817,368	149,933,138	51
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- (b) The Development Expenditure from the total income in the years 2012 and 2013 had been 18 per cent and 27 per cent respectively and from the other income except “Govi Setha “lottery income, it was about 46 per cent and 71 per cent respectively. When preparing the Budget it was estimated to utilize the money from the income of Govi Setha lottery for Development Expenditure and Investments. Nevertheless the total Development Expenditure and the Investment Activities estimated, had not been executed as the money had not been received from the Govi Setha lottery from the year 2009.

#### **4. Operating Review**

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##### 4.1 Management Inefficiencies

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###### Delays in Settlement of Advances

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- (a) The advances granted for 4 Development Projects amounting to Rs. 10,151,772 had been settled after a delay of long period, without taking action to utilize for such purposes.
- (b) Even though a period exceeding one year had elapsed after the grant of advances amounting to Rs. 75,663,882 for 5 Development Activities, balances of advances amounting to Rs. 4,470,488 had further remained without being settled.

##### 4.2 Idle and Under – utilized Assets

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The bank balance of the current account of the Fund for 10 months of the year under review had exceeded Rs.3 million and in 5 instances the balance had exceeded Rs.10 million. As such it was observed that action had not been taken to utilize the money of the fund effectively.

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

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- 5.1 Even though the financial statements of the Fund for the year under review had been presented on 28 February 2014, such financial statements had been withdrawn in two instances on 13 March 2014 and 23 May 2014 due to material accounting deficiencies thereon, and the revised financial statements had been presented on 9 June 2014.

## 5.2 Budgetary Control

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- (a) According to the Budget of the Fund, the estimated cost of 9 items amounted to Rs.69, 735,000 while the actual expenditure amounted to Rs. 20,752,047, thus it was observed that the Budget had not been made use of as an effective instrument of management control.
- (b) According to the Budget of the Fund, 06 projects, which the provisions of Rs. 13,253,540 allocated for, had not been implemented.
- (c) A sum of Rs.20 million had been allocated as the provisions for contingent expenditure in the Budget for the year under review and as compared with the preceding year the provisions for contingent expenditure were Rs. 4 million for that year. A sum of Rs.10.25 million had been spent from the provisions of contingent expenditure for 08 development programmes which had not been included in the Budget.

## 5.3 Tabling of Annual Reports

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Even though the Annual Reports of the Fund should be tabled in Parliament in terms of the Public Finance Circular No.PF/423 dated 22 December 2006 of the Deputy Secretary to the Treasury, action had not been taken accordingly.

## 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 Secretary from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Granting and Recovery of Loans
- (c) Implementation of Development Programmes
- (d) Utilization of Funds