

Agrarian Development Fund - 2017

The audit of financial statements of the Agrarian Development 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, 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 97(5) of the Agrarian Development Act, No. 46 of 2000. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

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 judgement, including the assessment of the risks of material misstatement 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.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the Agrarian Development 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 Standards

The following observations are made.

- (a) In terms of paragraph 7 of Standard 1, income, expenses, assets and liabilities should be brought to account on accrual basis. Nevertheless, contrary to that, it had been indicated that the income from Acreage Tax is brought to account on cash basis according to Accounting Policies.
- (b) The basis of valuation of inventories in terms of paragraph 47 of Standard 9, had not been disclosed.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Loan installments recoverable for 140 water pumps and 2,464 Tractors provided to farmers in the year 2010 under the Japan-funded project had not been brought to account on accrual basis. As such, an outstanding loan installment amounting to Rs.181,163,484 recoverable as at 31 December 2017 had not been brought to account.
- (b) Loan installments recovered from farmers had been brought to account as income of the Fund due to the deficiency indicated in paragraph (a) above. Accordingly, the value of loan installments so identified as income and brought to account in the year under review and the preceding year, had been Rs.20,296,143 and Rs.17,159,610 respectively and the surplus of those years had been over computed by those similar values.

2.2.3 Unexplained Differences

Action had not been taken to identify and settle the difference of Rs.651,798 remaining between the cash balance of the Fund and the cash balance according to Treasury Books since the year 2008.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even by 31 December of the year under review to recover the sum of Rs.6,194,575 recoverable from a period of 07 years for 02 wheel tractor trailers and 04 wheel tractor trailers provided to Agrarian Service Centres and Farmers' Societies in the year 2010.
- (b) Action had not been taken to recover advances of Rs.518,000 granted on recovery basis by the Fund in the year 2012 for the construction of Wanathawilluwa Tissue Culture Laboratory and it had been continuously shown in financial statements as a current asset.

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

In terms of paragraph (b) of Public Finance Circular No. 03/2015 dated 14 July 2015, the advances obtained should be settled immediately after the completion of the purpose. Nevertheless, advances totalling Rs.4,507,861 granted in 08 instances in the year under review had not been settled even by 04 July 2018, the date of audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a surplus of Rs.50,009,002 as compared with the corresponding surplus of Rs.54,228,626 in the preceding year, thus indicating a deterioration of Rs.4,219,624 in the financial result of the year under review as compared with the preceding year. The decrease in the income from ticket fees by Rs.2,374,781 and decrease in other receipts by Rs.1,863,265 had mainly attributed to the deterioration of the above financial result.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though an Action Plan should be prepared in terms of the Public Finance Circular No.1/2014 of 17 February 2014, issued by the Ministry of Finance and Planning, an Action Plan had not been prepared for the year under review for purposes carried out by the Fund.

4.1.2 Function and Review

The following observations are made.

- (a) According to the Budget Estimate, a sum of Rs.6,000,000 allocated during the year for enforcement of new Agricultural Policies and a sum of Rs.2,000,000 allocated to ensure the safety of finance and loan documents of Agrarian Banks and to supply necessary instruments therefor, had not been utilized.
- (b) Budget provisions had not been made in the year under review for research activities which is one of the objectives of the Fund.

4.2 Management Activities

The shortage of stocks of Rs.450,000 identified prior to the year 2006 had been continuously shown in the financial statements as a current asset instead of taking action to recover that loss from the responsible officers.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances ranging from 30 per cent to 150 per cent were observed between the budgeted and actual income and expenditure in the year under review and as such, it was observed that the budget had not been made use of as an effective instrument of management control.

5.2 Procurement Plan

A Procurement Plan had not been prepared in terms of Guideline 4.2 of the Government Procurement Guidelines of the year 2006.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Commissioner General from time to time. Special attention is needed in respect of the following areas of control.

| Areas of Systems and Controls ----- | Observations ----- |
|---|--|
| (a) Accounting control | Crediting the balances of Accounts to the Fund without being identified. |
| (b) Recovery of Loans | Non-recovery of loan installments remaining since the year 2010. |