

## **Farmers' Trust Fund – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Farmers' Trust Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and 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. 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 accompanying financial statements 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 Qualified Opinion**

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My opinion is qualified 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**

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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 of the Fund.

## 1.4 Auditor's Responsibility for the 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 Funds'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 the Company 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 Financial Statements

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### 1.5.1 Accounting Deficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) The Treasury Bills interest amounting to Rs.4,859,898 receivable in the year 2017 had been brought to account as income. Nevertheless, when realizing the same to the income in the year under review, it had been again stated as the income in the financial statement. As such, the surplus and the receivable interest income had been overstated by that amount.	It is an error occurred in entering accounts. Action has been taken to correct it in the year 2019.	In the receipt of income relating to the preceding year, action should be taken to correctly account them in the relevant accounts.
(b) Loan installments and interest of Rs.5,094,919 received by the bank in respect of the loans granted through the Rural Development Bank had not been stated in the financial statements.	Action will be taken to include that amount in the final accounts reports of the Fund in the year 2019 and amend the accounts report.	Action should be taken to identify the direct receipts of the bank and account them.

### 1.5.2 Unexplained Differences

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Audit Observation	Comments of the Management	Recommendation
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Even though the Govisetha Lottery income receivable from the General Treasury relating to the year under review had been stated as Rs.3,542,059,053 in the financial statements, it had been Rs.3,406,797,355 according to the	Action will be taken to substantiate the balances of the Govisetha Lottery income notified to the Treasury and the Farmers' Trust Fund from the year 2019.	Action should be taken to make the relevant corrections in consultation with the General Treasury.

Treasury books. Accordingly, a difference of Rs.135, 261,698 was observed.

### 1.5.3 Inappropriate Evaluation or Estimation

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Despite being estimated Rs.666,458,848 by the revised estimate of the year under review for 59 projects, only 35 projects costing Rs.379,261,180 had been commenced.	Due to issues crop up in the implementation of projects in a manner cover all the districts involving a large number of institutions, certain projects could not be commenced and although initial arrangements had been made relating to some projects those could not be implemented.	Action should be taken to select the implementable projects and prepare estimate accordingly.

### 1.5.4 Lack of Documentary Evidence for Audit

<b>Item</b>	<b>Amount</b>	<b>Evidence not Furnished</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Debtors	9,603,076	Balance confirmation letters and age analysis of the debtors.	<ul style="list-style-type: none"> <li>A sum of Rs.1,679,900 is a loan granted by the Deputy Commissioner of Agrarian Services (Uva) to the Thelulla Agrarian Services Centre to provide Red onion seeds for the framers on credit basis in the year 1999. Since the information required to confirm this balance was not in the possession of the relevant institutions, balance confirmation letters had not been sent.</li> </ul>	Action should be taken to appoint an officer responsible for obtaining balance confirmations by dispatching letters to the relevant parties.

- A sum of Rs.7,923,174.95 is a balance transferred by the Agricultural Trust Fund to the Farmers' Trust Fund in the year 1991. Only a name list is available regarding the district relating to the formation of this balance as at 31.12.2002. Nevertheless, it has been informed that the aforesaid districts, too, lacked the details on this balance. As such, balance confirmation letters have not been sent.

(b)	Deposits of the Farmers	697,644	Detailed Deposit Register.	This balance is only a balance transferred to the Farmers' Trust Fund. A deposit register is not available. A special discussion is due to be held to take a decision in this connection.	Action should be taken to prepare and maintain a deposit register.
(c)	Shares Account	591,965	Share Holders name list	This balance is only a balance transferred to the Farmers' Trust Fund. A Share Holders name list is not available. A special discussion is due to be held to take a decision in this connection.	Action should be taken to prepare and maintain a Share Holders name list
(d)	Advances	28,539,239	Age analysis	Action will be taken to present an age analysis relating to those balances immediately.	Action should be taken to prepare an age analysis at the time of preparing the final financial statements and furnish to Audit.
(e)	Short Term Loans	141,924,200	Age analysis	Action will be taken to present an age analysis relating to those balances immediately.	-Do-

(f)	Long Term Loans	190,977,723	Age analysis	Action will be taken to present an age analysis relating to those balances immediately.	-Do-
(g)	Balance of the Govisetha Fund	159,399,408	Documentary evidence for the confirmation of balance.	This balance of Rs.159,399,408 of the Govisetha Fund has continued to exist in the Farmers' Trust Fund over a number of years from the year 2002. Action is being taken to discover the information thereon by perusing the old documents and the particulars thereon will be informed to you expeditiously.	Action should be taken to confirm the balance.

## 1.5 Accounts Receivable and Payable

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### 1.5.1 Funds Receivable

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Audit Observation	Comments of the Management	Recommendation
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(a) The debtors balance of Rs.19,792,044 as at 31 December 2018 had remained unrecovered and shown in the financial statements over a period from 03 years to 17 years.	These balances remain unrecoverable and provisions for doubtful debts had not been made thereon and as such, action will be taken to settle them from the accounts in future.	Action should be taken to settle those balances by obtaining the relevant approval.
(b) It had been pointed out according to the report presented by the Board of Survey appointed by the Fund, that the balance of the savings account amounting to Rs.7,241,656 should be changed as a recoverable balance.	It is expected to reach a decision in this connection by further confirming the relevant matters.	Action should be taken to properly account or settle this balance after being confirmed the particulars thereon.

## 1.6 Non-compliance with Tax Regulations

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though this is an institution liable to pay taxes in accordance with the Inland Revenue Act, No.10 of 2006, action had not been hitherto taken to pay a sum of Rs.30,724,871 allocated as payable income tax as at the end of the year under review.	The Farmers' Trust Fund had registered for the payment of income tax in the year 2019 and steps will be taken to pay the tax from this year.	Action should be taken in accordance with the Inland Revenue Act.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Fund during the year under review had resulted in a surplus of Rs.82,914,878 and the corresponding surplus for the preceding year amounted Rs.47,097,871. Accordingly, an improvement of Rs.35,817,007 was observed in the financial result. The decrease in the expenditure on development had mainly attributed to the above improvement.

## 3. Operating Review

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### 3.1 Management Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the Fund was established for the achievement of the objectives referred to in the Deed of Trust and agricultural development of the small farmers, a sum of Rs.835,001,919 and Rs.93,042,910 had been invested in the fixed deposits and Treasury Bills respectively without being sufficiently used for the achievement of those objectives.	With the objective of allocating more funds for the future development projects, plans have been drawn to take steps by obtaining development proposals at rural level while giving training to the Development officers attached to the Divisional Secretariat on the preparation of projects and the follow up actions.	Funds should be adequately utilized for the agricultural development and welfare activities of the small farmers.

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| <p>(b) Attention of the Fund had not been drawn on preparing necessary plans and implementing them for the utilization of Rs.3,542,059,053 receivable to the Farmers' Trust Fund from the Treasury as at the end of the year under review from the Govisetha Lottery income for the programmes on providing facilities for the farmers.</p>   | <p>Action will be taken to correct the difference pointed out on the balance of the Govisetha Lottery income in consultation with the General Treasury and the Lottery Board. Similarly, steps will be taken to substantiate the Govisetha income balances notified to the Treasury and the Farmers Trust Fund from the year 2019.</p> | <p>Attention should be drawn on utilizing the Govisetha Lottery income for the programmes on providing facilities for the farmers.</p> |
| <p>(c) Without being obtained a guarantee, a sum of Rs.600,000 had been released to a farmer at Moragollagama for carbonic Read Lady Papaw cultivation on 16 November 2015 and despite being reported in the field inspection report that there was no progress of the project, second installment of the loan amounting to Rs.400,000 had been released on 04 March 2016. The Fund had failed to recover the loan installments even by April 2019.</p> | <p>This loan should have been settled by November 2018. Nevertheless, any installment had not been settled up to date. Having completed the preliminary activities relating to taking legal action, the matter had been referred to the Agrarian Tribunal, Mahawa.</p>   | <p>Action should be taken to recover loan installments or initiate legal action.</p>   |

### 3.2 Human Resources Management

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Audit Observation	Comments of the Management	Recommendation
<p>Due to reasons such as , low progress level of the recovery of loans resulting from the absence of a permanent staff, grant of advances again and again despite the existence of unsettled advances, delays in the recovery of loans and writing off of the unrecoverable loans, it was observed that the financial management of the Fund was not at a satisfactory level. The Fund had not so far taken steps to prepare a scheme of recruitment and obtain approval of the Department of Management Services for the recruitment of permanent staff in order to ensure the successful implementation of the affairs.</p>	<p>This observation is accepted. As a result of changing the Cabinet from time to time, it has not been possible to finalize the activities relating to the Act. Plans have been drawn to prepare a formal scheme of recruitment and appoint a permanent staff once the Act is passed.</p>	<p>Action should be taken to prepare a scheme of recruitment and appoint a permanent staff.</p>



### 4.3 Annual Action Plan

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- An Annual Action Plan had not been prepared for the year under review in terms of Paragraph 03(b) of the State Finance Circular No.01/2014 dated 17 February 2014.	----- Since the project proposals are implemented on the approval of the Board of Directors, an Annual Action Plan was not prepared. Nevertheless, an Action Plan has been properly prepared from the year 2019.	----- An Annual Action Plan should be prepared in terms of the Circular.