

Farmers' Trust Fund – 2022

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Farmers' Trust Fund for the year ended 31 December 2022 comprising the financial position as at 31 December 2022 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 provisions of the National Audit Act No. 19 of 2018 and Deed of Trust of the Farmers' Trust fund dated 9 March 1994. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effect of the matters stated 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 2022, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I express a qualified opinion based 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 intend to liquidate the University 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 Sub-section 16(1) of the National Audit Act No. 19 of 2018, the University 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 Institute.

1.4 Auditor's Responsibility for Auditing 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 scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 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. 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 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 Institute
- 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 Audit Observations on the Preparation of Financial Statements

1.5.1. Emphasizing the Matters

Audit Observation	Comment of the Management	Recommendation
As disclosed by Note No.1.10 of the financial statements presented, the cumulative sum credited by the National Lottery Board to the Consolidated Fund of the General Treasury at 10 percent of the Govisetha lottery income from 1995 to the year under review was Rs.6,367,303,383. Nevertheless, only Rs.955,605,390 had been given during the period of 28 years to perform duties and functions of the Farmers' Trust Fund that has been established by a deed of trust.	The money has been given to the fund from the year 1995 to the year 2008 from Govisetha Lottery income credited to the consolidated fund of the General Treasury as the Farmers' Trust Fund by the National Lottery Board. After the year 2008, the money was received for the last time in the year 2021. The fund has been applied for funds in several times but it has not been received. The last time letters were sent asking for money in the year 2023 and an amount of Rs.250 million was given in the year 2023.	The income of the Govisetha lottery should be utilized with maximum efficiency.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) In terms of paragraph 9 of Sri Lanka Public Sector Accounting Standards 2, where and investment qualifies as cash equivalents with a maturity of less than 3 months, fixed deposits of Rs.200,000,000 maturing in less than 3 months are included in the financial statements as long term financial assets. Accordingly, the value of cash and cash equivalents on that day was understated by that amount.	Made a note to account for the investments as Short-term and Long-term according to the period in the future.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards

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| (b) | In terms of paragraph 41 of Sri Lanka Public Sector Accounting Standards 03, the effect of a change in an estimate should be adjusted to affect the period in which the change occurred and future periods. However, over tax allocations of preceding year amounting to Rs.23,997,934 were adjusted to the accumulated fund without adjusting to the tax expense of the year under review. | Made a note to account for according to the SLPSAS 3 in future. | Action should be taken in accordance with Sri Lanka Public Sector Accounting Standards |
| (c) | In terms of Sri Lanka Public Sector Accounting Standards 07, the useful life of fixed assets had not been reviewed annually. 03 asset classes costing Rs.1,104,971 had been fully depreciated. Accordingly, no action had been taken to revise the estimated error according to the Sri Lanka Public Sector Accounting Standards 3 and adjusted in the financial statements until 31 December of the year under review. | As the fixed assets revaluation committee report has not been received by the fund by the 31 December 2022, This has not been adjusted in the financial statements. Action will be taken to do relevant adjustments by collecting revaluation report in the year 2023. | Assets should be revalued and accounted for in terms of Sri Lanka Public Sector Accounting Standards. |

1.5.3. Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Because of the income tax over-allocation of Rs.11,963,430 existing from the years prior to 2021 was not adjusted in the financial statements, income tax liability was overstated by that amount.	This balance was allocated before the Farmers' Trust Fund was registered for tax payments and action will be taken to remove this balance from the accounts.	Correct tax liability should be disclosed.
(b) It was observed that the balance of the savings account amounting to Rs.7,241,656 that had been stated in the statement of financial position as current assets did not actually exist.	In the year 2002, this balance transferred to the farmers' trust fund during the merge of the Revolving fund and Agricultural trust fund and It is only a book value. A committee has been appointed in this regard.	An investigation should be done on the bank balance.
(c) It was observed in the audit, inability to recover or non-existing balances of the other receivable interest balance of Rs.1,193,727 exist and continued in the	Action will be taken to remove the balance of Rs.1,193,727 from the books in the future. Out of the balance of Rs.18,247,914,	Provision for bad debt should be made in the financial

statement of financial position from the previous years, the amount of Short-term loan balance of Rs.18,247,914 and a Long-term loan balance of Rs.9,112,579 which had been taken over during the establishment of the Trust Fund.

- Arrangements are being made to submit a balance of Rs.1,424,521 to the agrarian Tribunal
- It is proposed to appoint a committee as per the decision of the Board of Directors for two balances totalling Rs.8,623,393 and proceed further
- It is proposed to take legal action against 3 companies related to the balance of Rs.8,200,000

It is proposed to appoint a committee for the balance of Rs.9,112,579 and act on its recommendations.

statements for the full value of the uncollectible credit balances.

(d) Although it had been stated in the accounting policies that the financial statements would be prepared on accrual basis, contrary to that the income credited to General Treasury from the income of Govisetha Lottery as income of Trust Fund had been brought to account on cash basis.

Only the actual income received by the fund from the year 2016 has been brought to account and receivable amount has been shown by a note.

Action should be taken in accordance with the Accounting policies.

(e) Due to the fact that the treasury bill interest income of Rs.14,171,883 related to the year under review was recorded as Rs.12,953,578 related to the year under review was understated by Rs.1,218,305 in the financial statements.

Treasury bills relating to the year 2022 have been accounted for at the original amount of the investment when shown in the financial statements. The change in the investment value of treasury bills between preceding year and the year under review is reconciled by a journal entry at the end of the year. Noted to account on accrual basis in future as per accounting standards.

Interest income should be accounted for as per accounting policies.

(f) When correcting the error of overstating the interest income of the preceding year's treasury bills by Rs.2,343,543 as shown in the previous year audit report, adjustments were made only for Rs.1,125,192 and further adjustments of Rs.1,218,351 were not made.

In order to correct the error of overstating the interest balance of treasury bills receivable in the year 2021, an adjustment of Rs.1,125,192 has been made to the prior year adjustment account of the value of treasury bills receivable. This adjustment will accurately reflect the closing balance of the year 2022 and will be presented in the notes and notes to the comparative financial statements in future in accordance with Sri Lanka Public Sector Accounting Standards 03.

Interest income should be accounted for as per accounting policies.

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| (g) | The profit of the year under review was over stated by Rs.6,029,902 due to accounting of the expenditure vouchers of Rs.6,029,902 presented in the year under review to settle the advance money given in the previous year as an expense of the preceding year. | Advances given for development activities are accounted as advances of the respective year and adjusted as prior year adjustments. | The expense should be recognized in respect of the period in which the advance settlements are made. |
| (h) | Rs.229,069 of the income for the year 2020 should not be adjusted in the year 2022 to correct the error of accounting as the income of the year 2021. But it was debited to the accumulated fund and incorrectly credited the receivable maize loan interest account in the year 2022. | Will be correct the mistake of deducting interest income from the receivable interest income account when correcting the accounting of interest income related to maize loan related to the year 2022. | Accounting error must be corrected. |
| (i) | The credit balance of Rs.16,555,081 in the prior year adjustment account was added to the surplus of the year under review instead of being added to the opening balance of accumulated fund and shown in the statement of financial position. | Noted to make adjustments to the accumulated fund of the preceding year while indicating prior year adjustments in the statement of changes in equity in accordance with Sri Lanka Public Sector Accounting Standards No.01. | Adjustments should be made in the financial statements in accordance with accounting standards. |
| (j) | The balance of the accumulated fund as on 01 January of the year under review was Rs.1,457,360,303 in the relevant ledger account and Rs.1,425,935,517 in the statement of changes in equity and a difference of Rs.31,424,786 was observed. | Action will be taken to correct the relevant omissions and errors in the future. | Action should be taken to correct the difference. |
| (k) | A ledger account relating to the interest income of the Krushi Shakthi loan scheme was not prepared. | Action will be taken to correct the relevant omissions and errors in the future. | A ledger account should be prepared. |

1.5.4. Non-reconciled Control Accounts or Reports

Item	Value as per Financial Statements Rs.	Value as per corresponding Reports Rs.	Difference Rs.	Comment of the Management	Recommendation
Income from the Govisetha Lottery	5,411,697,993	5,400,175,527	11,522,466	Relevant difference will be corrected by asking from General Treasury and the National Lottery Board.	The difference should be identified and corrected.

1.5.5. Lack of Documentary Evidence for Audit

The following observations are made.

Item	Amount Rs.	Audit Evidence Not Furnished	Comment of the Management	Recommendation
(a) Deposits of the Farmers'	697,644	Detailed schedules and balance confirmations	There is only book value in the financial statement report. There are no detailed schedules. There is no party to confirm the balance.	Balance verification should be done immediately.
(b) Balance of the Share Account	591,965	Share Certificate	There is only book value in the financial statement report. There are no detailed schedules. There is no party to confirm the balance.	Balance verification should be done immediately.
(c) Balance of the Govisetha Fund	159,399,408	Detailed schedules and balance confirmations	There is only book value in the financial statement report. There are no detailed schedules. There is no party to confirm the balance.	Balance verification should be done immediately.

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

Reference to Laws, Rules, Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Article 149 of the Constitution and Section 15.1 of State Finance Circular No. 01/2020 dated 28 August 2020	Although the collection of revenue and incurring expenditure outside the budget should not be approved without the approval of the Appropriation Act in order to maintain fiscal discipline, the Fund established by the Farmers Deed of Trust dated March 9, 1994 is still being operated as of the date of this report without the approval of the Parliament.	The Legal Division of the Ministry has been directed to carry out further activities on the draft of the Farmers' Trust Fund Bill. Further work is being done in that regard.	The bill should be passed in Parliament expeditiously.
(b) Section 40 of the National Audit Act No. 19 of 2018	Although an internal auditor should be appointed, the Trust Fund had not appointed an internal auditor.	The Internal Audit of the Ministry of Agriculture performs the Audit activities of the Farmers' Trust Fund. The Internal Audit Unit of	An Internal Auditor should be appointed.

- (c) Section 14 of A staff recruitment procedure Deed of Trust for the Trust Fund had not been developed and approved. The Ministry conducts the internal audit of the Fund. The Legal Division of the Ministry has been directed to carry out further activities on the Farmers' Trust Fund's Bill. After the adoption of the bill, Action will be taken to prepare and approve a scheme of recruitment. A staff recruitment procedure should be approved.

2. Financial Review

2.1 Financial Results

The operating results for the year under review was a surplus of Rs. 48,833,512 as compared with the corresponding surplus of Rs.74,034,655 for the preceding year. Accordingly, a decrease of Rs. 25,201,143 was observed in the financial results. This decrease was mainly due to non-receipt of Govisetha Lottery Income from the General Treasury during the year under review as compared to the previous year. Although the profit had decreased in the year under review, the interest income had increased by Rs. 47,547,192, it had grown by 141 percent as a percentage compared to the previous year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The investment amounting to Rs.125,000,000 invested in fixed deposits of the People's Bank and maturing on 9 June 2022, has lost an interest amount of Rs.557,363 at the annual interest rate of 23.25 percent prevailing on that day due to the 7-day delay in reinvestment.	There have been delays due to some unavoidable factors such as investment maturity dates and government holidays. However, there will be a note to make related investments without delay in the future.	Surplus funds should be invested without delay.
(b) A total of Rs. 102,662,700 had been given as a loan to the National Livestock Development Board on nine occasions from 2002 to 2004, It was agreed that, Rs.9,000,000 of that loan amount should be settled within one year and Rs.93,662,700 should be settled immediately after the sale of the land called Mahaberiyathenna Watta situated in Kandy in terms of the agreement. However at the time of agreement, the land had been leased to a third party for 99 years	At present, monthly instalments of Rs.500,000 are charged on a continuous basis. In this regard, the Farmers' Trust Fund Board of Directors meeting on March 17, 2023, was discussed, and the concerned institution was informed to pay Rs. 1 million in monthly instalments.	Arrangements should be made to recover the outstanding loan balance.

and as of 31 December of the year under review, although 20 years had passed since the loan was given, the outstanding loan balance was Rs.55,512,700 and the accrued interest was Rs.98,023,448.

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| (c) | The Trust Fund had approved an amount of Rs.1,000,000 for the project and a sum of Rs.500,000 had been released to a farmer of Walapana village in NuwaraEliya district in the year 2016 for potato cultivation after agreeing to recover it within 24 months. Due to the fact that the Assistant Commissioner of Agricultural Development had reported that the project had not been implemented successfully, the remaining amount was not released. Although 6 years have passed since the release of loan the loan amount and interest have not been recovered. | This was the loan given through the Agrarian Bank. A case has been filed by the Agrarian Tribunal, and further proceedings are underway. | Action should be taken to recover the money as agreed. |
| (d) | Rs.1,655,819 had been accrued as the interest receivable for the loan amount of Rs.200,000,000 given to the Agricultural Development Department in the year 2020 to be given to the farmers who grow maize, but it had not been charged until now. | The Department of Agricultural Services has been informed to recover the relevant loan balance and interest amount. | Interest must be collected along with the premium. |

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) As pointed out by the audit continuously, for cultivating 3,000 acres of paddy lands spread across the Polonnaruwa district according to the Global Gap certification system in 2018/2019, an interest free loan of Rs.5,966,000 , on the basis of payment within a period of one year, was given to the Rann Geviliya Social Enterprise Public Company, which was established with the objective of educating the farmers about international standardization methods and achieving economic benefits by adopting environmentally friendly sustainable agriculture method. According to the project time frame, although it was expected to issue	In this regard, regular awareness has been given and action has been taken, and the Farmers' Trust Fund's Board of Directors meeting on 17 March 2023, instructed them to take legal action in this regard. The relevant legal activity has been delegated to the legal division.	Gap certificates should be issued in compliance with the plan, and the loan amount should be settled according to the plan.

GAP (Good Agriculture Practice) certificate for the farmers' paddy production by March 2019, the relevant certificate had not been issued by December 31 of the year under review and the loan amount given by the trust fund had not been recovered yet.

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| <p>(b) No action has been taken to recover the debtor balance of Rs.27,360,493, which had elapsed between 5 and 22 years as of December 31 of the year under review, among the short-term loan balances given to district offices of the Department of Agrarian Development and farming companies.</p> | <ul style="list-style-type: none"> • Arrangements are being made to present the balance of Rs.1,424,521 to the Agrarian Tribunal. • It is proposed to appoint a committee in accordance with the Board of Directors' decision for two balances totalling Rs.8,623,393 and proceed. • It is proposed to take legal action against 3 companies over the remaining balance of Rs.8,200,000. • It is proposed to appoint a committee for the balance of Rs.9,112,579 as per the decision of the Board of Directors and proceed further. | <p>The proposed action should be expedited.</p> |
| <p>(c) In the establishment of the Farmers' Trust Fund by amalgamating Revolving Fund and the Agricultural Trust Fund in the year 2002, the debit and credit balances of the two funds were transferred to the Farmers' Trust Fund. Although 10 retired officers had been appointed by paying allowances of Rs.1,490,000 in the year 2014 to recover the short term loan balance of Rs.44,255,850 of the Revolving Fund assigned to that Fund, unrecovered loans amounting to Rs.39,909,275 have been further brought forward in the financial statements since 2019.</p> | <p>Based on the information mentioned in the reports given by the officials appointed to settle the revolving fund loan balance, the existing balance of Rs.44,255,850 has been reduced to Rs.39,909,275. However regarding the remaining balance, a committee has been appointed and settlement is in progress</p> | <p>Action should be taken to recover the loan.</p> |
| <p>(d) Out of the loan of Rs.3,500,000 provided to the private company in 2003, a sum of Rs.860,000 and accrued interest of Rs.676,666 further remained recoverable. Since the fund has been informed that this company has stopped its business operations and the person who obtained the loan has</p> | <p>In this regard, it was discussed in the Board of Directors meeting held on 17.03.2023 of the Farmers' Trust Fund, where it was decided to consult the Attorney General's Department to carry out legal proceedings. Accordingly, it</p> | <p>Action should be taken to recover the loan.</p> |

died, it has not done a reasonable investigation on the ability to recover the loan or take necessary legal steps so far. has been referred to the legal division.

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| (e) | A loan of Rs.11,370,000 had been granted to 63 farmers producing big onion seeds by the year 2016. As of December 31 of the year under review, the outstanding balance was Rs. 2,957,120, and no arrangements had been made to recover the loan amount as per the agreed conditions. | This is a loan given to Matale district through agrarian banks. This is still pending due to delays in collecting money from farmers. Currently there is a balance of Rs.2,623,265. | Action should be taken to recover the loan as agreed. |
| (f) | A sum of Rs.90,000,000 had been given to the Commissioner General of Agrarian Development to be disbursed to 10,000 farmers growing maize in Anuradhapura district under the condition of recovery within one year in the year 2015. Even though 7 years had passed, a balance of Rs.16,541,332 remained due as of the 31st of December of the year under review. | This is also a loan given to Anuradhapura district through agrarian banks. This is still pending due to delays in collecting money from farmers. Currently there is a balance of Rs.16,541,332. | Action should be taken to recover the loan as agreed. |

3.3 Transactions of Contentious Nature

Audit Observation

Without being utilized the money to implement the main objective of establishing the Farmers' Trust Fund, the funds of the Trust Fund had been continuously invested in fixed deposits and Treasury Bills. A sum of Rs.465,000,000 had been invested in fixed deposits and Rs.90,420,510 in treasury bills and earned Rs.72,762,442 as interest income as at 31 December of the year under review.

Comment of the Management

The Farmers' Trust Fund's Board of Directors decided not to implement new projects as a result of the bad economic climate in the country, and as a result, the projects were not carried out. The money owned by the fund is used again for its development and credit programs, even though it is invested in fixed deposits and generates interest income. It is proposed that development and welfare programs be implemented in 2023.

Recommendation

The funds should be utilized to achieve the main objective of establishing the Fund

4 Accountability and Good Governance

4.1 Tabling the Annual Performance Report in Parliament

Audit Observation	Comment of the Management	Recommendation
In terms of Section 877(2)(e) of F.R. inserted by paragraph 15.1 of State Finance Circular No. 01/2020 dated 28 August 2020, The annual performance report of the fund for the year 2021 should be submitted to the parliament within 150 days after the end of the financial year, however the report has not been submitted to the parliament so far.	The annual performance report with financial statements has been prepared and submitted to the audit in 2022.	It should be submitted to the parliament accordance with the circular.

4.2 Internal Audit

Audit Observation	Comment of the Management	Recommendation
Although an internal auditor should be appointed, the Trust Fund has not appointed an internal auditor.	The Internal Audit of the Ministry of Agriculture performs the Audit activities of the Farmers' Trust Fund. The Internal Audit Unit of the Ministry conducts the internal audit of the Fund.	An Internal Auditor should be appointed.