

## **Agrarian Development Fund - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of Agrarian Development Fund for the year ended 31 December 2022 comprising the statement of 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 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 2022, 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 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. Observations on the preparation of Financial Statements

### 1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
(a) During the physical stock verification of watersheds albums and manuals on 10 February 2023, there was a shortfall of 08 watersheds albums worth Rs.32,000 and 116 watersheds manuals worth Rs. 37,120 and their totaled value of Rs. 69,120 had not been adjusted in the financial statements of the year under review.	Even though the adjustments made on the engineering report of physical stock balance of watersheds manuals and watersheds stocks, this deficiency was occurred due to non-updating the information of stock verification stock balance on 10.02.2023. It is informed that the correct balances will be adjusted in the financial statements of the year 2023.	Physical stock shortages should be identified and accounted.
(b) Due to the fact that the last year expenditure of Rs. 76,830 on officer training was shown as an expenditure of the year under review without making adjustment to the accumulated fund, the relevant expenditure account had been overstated by that amount.	Expenses are recognized on the basis of the year in which the advances are settled. Accordingly, the expenses are incurred using the provisions of the budget of the respective years.	The expenditure should be adjusted in the respective years.
(c) Expenditure of Rs. 243,544 incurred during the same year from the advance amount of Rs. 244,000 which was given to the Assistant Commissioner of Ampara Agricultural Development on 23 February of last year for constructing the fence at Saindamarudu Agricultural Service Centre had been accounted for as improvement and development expenditure in the financial statements of the year under review without making adjustments to the accumulated fund.	Expenses are recognized base on the year which is the advances are settled. Accordingly, the expenses are incurred using the provisions of the budget of the respective years.	The expenditure should be adjusted in the respective years.
(d) The total of Rs. 4,015,527 which was received for the last year as the 02 wheeler tractor premium income of Rs. 4,012,507	The premium income forecasts related to each year are included in the budget of the relevant year	Adjustments should be made for the relevant year of

- and 2KR water pump premium income of Rs.3,020 had been taken into the income of the year under review.
- and the expenses of the relevant year are made based on that. Accordingly, the premium income received during the year was not credited to the accumulated fund and was accounted as income of the year.
- (e) Although the revenue of 20 percent acre tax due on 31 December 2022 was Rs.15,738,225, that revenue had been under-accounted by Rs.3,466,975 in the financial statements. It is further observed that Rs. 93,427 of this relates to the year under review and Rs.3,373,548 relates to the previous year.
- The relevant adjustments have been made as per the information provided by the Service Division on 31 December 2022, and the relevant adjustments will be made in the financial statement of the year 2023.
- Revenues for the year should be correctly recognized and accounted for.
- (f) Although the fixed assets of the Agricultural Development Fund with a cost of Rs 12,468,763 which currently having in operational condition have been fully depreciated, these assets had not been revaluated and taken into account.
- It is informed that, the assets of the Agricultural Development Fund will be revaluated and necessary adjustments will be made in the future.
- Assets that are fully depreciated must be revalued and accounted.
- (g) Even though, there were 3,050 of Crop season meetings and minor irrigation maintenance books worth Rs 305,000 during the stock verification held on 10 February 2023 in the water management department, it had not been documented and included in the stock.
- Due to non-updating of the information of physical stock verification held 10.02.2023, 3050 of crop season meetings and minor irrigation maintenance books worth Rs.305,000 have not been accounted for. It will be accounted in the future.
- Unaccounted stocks of book should be accounted.

### 1.5.2 Unexplained differences

The following observations are made.

Audit Observation	Management Comment	Recommendation
(a) As on 31 December of the year under review, even though the balance of the deposit account as per the books of the fund was Rs.338,115,488, the balance according to the treasury books was Rs.338,767,636. Accordingly, the difference of Rs. 652,148, which has being existed for a long time had not been identified and settled.	The difference of Rs.651,797 was occurred before due to the fact that a separate account was maintained in the People's Bank until 15 November 2007 and it was merged with the Department's main account in the year 2008. The committee appointed to examine this has suggested that the transactions affected to the difference should	The difference should be identified and settled.

be identified and steps should be taken to correct them. Since there is no relevant documentation, it will be late to detect and correct this difference.

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| (b) | Rs. 4,484,078 which was the 60 percent permit fee for the use of paddy land for other purposes to be sent to the agricultural service centers for the previous years and Rs. 24,807 for the year under reviewed totaling to Rs 4,508,885 had been stated as Rs 11,642,560 in the financial statements and the reasons for the difference of Rs 7,133,675 had not been explained.  | In the calculation of permit fees payable, the Permit fees payable are included in the financial statements after calculating the 60 percent payable to the Agricultural Service Centers from the amount received by the head office for land permits. For that, It is informed that the information provided by the Productivity & Marketing division will be compared and corrected. | The income for the year should be calculated and accounted accurately.   |
| (c) | A difference of 10,412,595 was observed in the debtor balances of 02 wheeler tractor, 04 wheeler tractor and 2KR water pump shown in the financial statements of the year under review compared with the debtor balances shown in the sub-register.   | Officers were informed to make corrections while preparing financial statements for the year 2023.   | Sub register should be matched with the balances of financial statement. |
| (d) | According to the documents of the service department of the fund, the outstanding acre tax income related to previous years was Rs. 41,398,774 and the 20 percent acre tax income due to the fund from that outstanding was Rs. 8,279,755. However, the fund had received an acre tax income of Rs. 20,657,106 for the year under review and therefore, it was observed that the outstanding acre tax income had not been properly accounted for. | It is informed that a Google sheet will be prepared from the year 2023 to get the acre tax amount due for the previous year separately and forwarded to all the district offices to correctly identify the acre tax income due for the previous years and necessary adjustments will be made.  | Income should be correctly identified.                                   |

### 1.5.3 Lack of evidence for audit

The following observations are made

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) As the journal entries for the adjustments made to the accumulated fund during the year under review were not submitted for audit, it	The journal entries relating to the adjustments to the accumulated fund in the year	All journal entries relating to adjustments should be presented

was not possible to check the accuracy of those adjustments made. 2022 could not be shown as with the financial attachments to the ledger statements.

- (b) Details of the physical existence and utilization of the computer software system which was purchased by the fund many years ago and stated in the statement of financial position as fixed assets amounting to Rs. 4,870,082 had not been submitted. A Board of survey had not been carried out to confirm the existence of the system. The information about the computer software system purchased by the fund many years ago and stated as fixed assets worth Rs. 4,870,082 will be submitted to the audit after the survey. It should be ensured that the computer software system is available and utilized.

**1.6. Receivable and Payable amounts**

The following observations are made.

Audit Observation	Management Comment	Recommendation
(a) The amount of Rs. 4,112,575 due for a period of 10 years for the 02 wheel tractor trailer and 04 wheel tractor trailer given to the agricultural service centers and farmer organizations in the year 2010 had not been recovered as of 31 December of the year under review.	The relevant parties in the Agricultural Development District Offices have been informed and given instructions in order to collect the premiums and actions are carrying out to collection of premiums. The speed of loan disbursement is at low level.	Debt balances should be recovered promptly.
(b) Even though the money due for 02 wheeler tractors given in the years 2006, 2008, 2010 and 2012 under the Japanese yen aid project should be recovered by 2015, an amount of Rs. 112,401,379 had not been recovered as of 31 December of the year under review.	The relevant parties in the Agrarian Development District Offices have been informed and advised to recover the amount of Rs. 111,325,484 by 31 December 2022 for the 02 wheeler tractors given in the years 2006, 2008, 2010 and 2012 under the Japanese Yen aid Project. The speed of loan disbursement is at low level.	Actions should be taken to recover the loan balances.
(c) The 2KR project water pump installments of Rs. 2,464,983 and the 04 wheeler tractor installments of Rs. 19,617,600, which have been due for more than 05 years included in the debtors balances had not been recovered by 31 December of the year under review.	The relevant parties in the Agrarian Development district offices have been informed and given instructions about the KR project water pump installments of Rs. 2,501,983 and 04 wheel tractor installments of Rs. 10,640,000 due over 05 years. At present, the collection of installments is being carried out and it is informed that although the collection speed is at low level, it is being gradually collected.	Actions should be taken to recover the loan balances.

**1.7 Non-compliance with rules, regulations and management decisions etc.**

<b>Reference to laws, rules and regulation etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Section 97(2)(e) of the Agricultural Development Act No. 46 of 2000 and Circular No. 439/92 of the Commissioner of Agricultural Services dated 03 August 1992	According to the statement of financial position for the year then ended 31 December of the year under review, the income due at 20 per cent acre tax of Rs. 12,271,249 had not been collected and the record of the 20 per cent acre tax contributions had not been maintained.	Necessary information about 20 percent acre tax revenue is obtained through the district offices and a debtor register containing detailed information about this is maintained at the level of the relevant Agrarian Service Centers.	A register of acre tax contributions should be maintained.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 104(4) and 156	Even though the 25 watersheds albums worth Rs. 100,000 were destroyed by termites due to unsecured placement of the watersheds albums without being documented using serial numbers and placing a responsible officer in charge, no action had taken in accordance with the financial regulations regarding those losses.	Due to a tree falling on the roof of the quality control laboratory in Malambe, 22 watersheds albums that were stored there have been damaged, and the action required to be removed those from the stock book has been taking.	An investigation should be commenced immediately.
(ii) F.R. 371	Although the ad-hoc sub imprest should be settled as soon as the work given to it is completed, the outstanding balance as on 31 December of the year under review was Rs. 1,968,848 and an advance amount of Rs.70,000 and Rs. 85,000 given to the Assistant Commissioners of Agrarian	The service department was informed regarding this matter and the officers were informed to settle this ad-hoc sub imprest in the year 2023.	Ad-hoc sub imprest should be settled immediately after completion of the given task.

Development in Matale and Vavuniya on 31 December 2019 had been also included.

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| (iii) F.R. 756   | Annual survey of fixed assets had not been conducted as per financial regulations.   | Officials were informed to conduct an annual survey of assets in the year 2023.  | Board of survey should be done on specific dates. |
| (c) No.842 of Treasury Circular dated 19 December 1978 | A fixed asset register had not been maintained for property plant and equipment amounting to Rs. 53,166,640 shown in the financial statements as per the circular. | Details of fixed assets are presented with notes to the financial statements, while details of fixed assets are also presented with notes to the final account. However, a fixed assets register will be maintained in the future. | A fixed asset register should be maintained.      |

## 2. Financial review

### 2.1 Financial results

The operating result for the year under review was a surplus of Rs. 49,078,658 and correspondingly surplus of last year was Rs. 8,441,249. Accordingly, a growth of Rs. 40,637,409 was observed in the operating result. This growth has resulted in an increase in acre tax revenue by Rs. 13,357,798, increase in permit fees and income of land reclamation by Rs. 11,733,145, increase in sales revenue of receipt books and committee cash books by Rs. 4,892,000 and the decrease in total expenditure by Rs. 12,728,376.

## 3. Operational review

### 3.1 Management Activities

The following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though the Fund had signed a contract worth Rs. 30,970,000 to prepare a management software system for the Agrarian Bank Pilot Project and Agrarian Development Committees in the year under review and had paid an amount of Rs. 9,291,000, any work had not been commenced.	It had been entered into the agreement with the related institution to network all farmer banks by the performance bond of Rs. 2,000,000 and payments have also been made for an advance bond of Rs. 7,959,290. Also, the necessary data and information related to this project were obtained covering all the agrarian service centers and arrangements were made for all the agrarian banks, agrarian development committees as well as the Potuhera IT unit,	The software system should be utilized for the respective task.



- the farmer banking section of the head office and the service section to be held. Accordingly, the completed digital system has been developed as a successful information system.
- (b) Action had not been taken in respect of an inventory deficiency of Rs. 450,000 more than 10 years old shown in the financial statements as on 31 December of the year under review. The committee, which has invested the deficiency in the final accounts of the fund since 1996, has recommended that an investigation should be conducted on the parties involved to this. The disciplinary department will also be informed about this matter and will take appropriate action accordingly. An investigation should be conducted and damage should be charged.
- (c) The expenditure of Rs. 2,224,119 incurred had been unproductive due to the contractor of Hela Bojunhala construction in Thanamalvila Agrarian Service Center stopping the construction in the middle. Although the performance security had been en-cash, payment had been done without being recovered the Rs. 626,693 equal to 20 percent of the value of the non-performing task as stated in the agreement from the contractor. Although the value of 20 percent of the value to be paid for the remaining work did not recover due to the delay in the recommendation and approval of the related bills even the contractor submitted the final bills on 04.05.2022 related to the related construction on 31.03.2022, the performance security of Rs. 267,879 has been en-cashed based on the decision of the Procurement of Department by cancelling the contract and the agreement. And the payments have been made only for the amount of Rs. 1,120,482 subject to the value imposed by the Director Engineer the work done so far. The value to be charged for the non-performing task should be recovered from the responsible officers promptly. Construction work should be completed without delay.
- (d) Even though an expenditure of Rs. 4,286,755 was incurred for the training program for the empowerment of members of the Agrarian Service Committee held in Anuradhapura district on 15th and 16th September 2022, Rs. 89,710 spent for food and accommodation had been uneconomic due to the non-participation of nominated persons. Anuradhapura district offices have been informed to take relevant steps in this regard. Attendance of officers selected for training work should be made mandatory.
- (e) Although Agricultural Research production Assistant was retired under Sections 2 and 12 of the Pension Code on 14 January 2021 after disciplinary proceedings on 10 March 2016 against for using and The related information is not owned by the service department at the present and the necessary actions are being carried out to take relevant action in the future. Disciplinary action should be complete immediately and damage should be recovered.

possessing the 02 wheel tractors given to Maradankadawala Agrarian Service Center in Anuradhapura District under Japanese Yen aid in 2010 without providing them to the farmers, the loss of Rs. 355,000 incurred had not been recovered until 28 February 2023.

**4. Performance**

**Audit Observation**

**Management Comment**

**Recommendation**

The reports of performance of fund had not been tabled in Parliament since 2000.

The observation is correct.

Performance reports should be tabled in Parliament

**4.1 Budgetary Control**

**Audit Observation**

**Management Comment**

**Recommendation**

(a) Budgeted income and actual income had been varied from 3.88 percent to 185.16 percent in 06 objects.

Factors affecting income variation include the increase in the amount charged per acre of the 20 percent acre tax and the increase in the amount of agricultural land under cultivation. Fuel problem in the country has caused to decrease in receipt book sales revenue in the first quarter of 2022 compared to that revenue. Revenue from the sale of committee cash books in the year led to an increase in expected income due to increase price of committee cash books which held as Rs. 1300 in 2022 up to 2100 and thereafter the revised new price was Rs. 3950. Although the speed of collection in 02 wheeler and 04 wheeler tractors and water pump premiums is at low level, it is being collected gradually. The actual revenue of this year differs from the budgeted revenue of the following year due to the fact that the revenue from issuance of land permits is estimated based on the actual revenue received in the previous year. Furthermore, the annual increase in

The budget should be prepared more accurately.

the number of requests to use paddy land for other purposes and there by the high value of the service fees received from Batticaloa and Jaffna districts has resulted in this.

- (b) Budgeted expenditure and actual expenditure had been varied from 14 percent to 100 percent in 04 objects.
- Rs.12,000,000 have been allocated for the implementation and enforcement of new agricultural projects and for the automation of offices i.e. the Agrarian Bank pilot project and the creation of a management information system for the Agrarian Development Committees. According to the procurement process, MGH Associates paid Rs.9,291,000 and purchased computers worth Rs.1.5 million as per the procurement process. Accordingly, Rs.10,791,000 has been spent out of Rs.15 million allocated.
- The budget should be prepared more accurately.
- (c) According to the budget document prepared for the year under review, any action had not been done during the year to administer and develop the agrarian center.
- The administration and development of the agrarian center was not done in 2022 and those activities were included in the action plan in 2023. Expenditure of Rs.10,791,000 have been incurred out of the Rs.15 million allocated under the implementation and enforcement of a new agriculture project for the year 2022.
- The tasks included in the budget should be carried out during the year.