

## **Farmers' Trust Fund – 2023**

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### **1. Financial Statement**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Farmers' Trust Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in net assets 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 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 2023, 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 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 Sub-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 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:

- 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. 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 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

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(a) Contrary to section 49 of Sri Lanka Public Sector Accounting standards 7, during the revaluation of property plant and equipment, the property plant and equipment class to which the assets belong was not fully revalued and in accordance with section 42 of that Standard, assets amounting to Rs.513,575 which were fully depreciated and further used have not been revalued and accounted for.	According to the revaluation committee report, the Trust fund has been disposed as disposable items, although it is included in the financial statements, so the revalued value is shown as 0 and the wooden cupboards purchase in the year 2022 have not been revalued.	Assets that are fully depreciated and used should be revalued and accounted for as per the standard.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) For the assets that were fully depreciated but still in use and were revalued and accounted for in September 2023, the relevant depreciation expense was not identified and accounted for the period from the date of revaluation to 31 December of the year under review.	All the revalued assets are not depreciated for the year 2023	Depreciation expense should be recognized on assets that are revalued and accounted for
(b) Although a balance in the savings account was shown as Rs.7,241,656, actually no such balance existed in that account, so the current assets were overestimated by this value.	The balance of the savings account of Rs.7,241,656 stated as current assets in the statement of financial position is a balance assigned to the fund at the beginning of the fund and in this regard a committee has been appointed and further actions is being taken to remove it from the accounting books.	Only the balances that are actually exist should be accounted for

- (c) The unrecognizable interest receivable balance of Rs.1,193,727, the short-term loan receivable balance of Rs.14,347,914 and the Farmers' committee loan balance of Rs.9,112,579 which had been taken over at the time of establishment of the Trust Fund and recoverability is uncertain and provision for impairment for that had not been made. In order to remove the other receivable loan interest balance of Rs.1,193,727 from the accounting books in the future, a committee has been appointed regarding the balance of Rs.9,347,696 of the short-term loan balance of Rs.14,347,914 and is carrying out further actions and it is proposed to carry out an investigation of FR 104 regarding the loan balance of Rs.700,218 and take further actions, and the loan balance of Rs.4,300,000 has been referred to the Attorney General. A committee has been appointed regarding the farmers committee loan balance of Rs.9,112,579 and further actions is being done. Impairment provisions should be made for uncertain balances.
- (d) In the year 2022, when the Revolving fund and the Agricultural trust fund were merged to establish the Farmers' Trust Fund, the farmers' deposits worth Rs.697,644, the share account worth Rs.591,965 and the balances of the Govisetha fund of Rs.159,399,408 which were assigned, as no evidence had been submitted to confirm the balances and accuracy of those balances could not be confirmed. During the merger of the Revolving fund and the Agricultural trust fund in the year 2002, for the balance of Rs.160,689,017 assigned to the farmers' trust fund and stated in the audit query, the Farmers' trust fund has only a list of balances as on 01 April 2002 and the said list of balances has been submitted to the Audit. The accuracy of the balances should be confirmed as per the submission of the confirmation of balances.
- (e) According to the agreement made for providing loans to the Paddy Marketing Board, the interest of Rs.3,814,633 related to the period from 31 July 2023 to 30 September, from the date the loan was granted to the date the loan started to be repaid, had not been accounted for. As per the agreement, the loan amount and interest payments will start from 1 October to 31 January, so only the interest applicable to that period has been calculated. However, according to the agreement, total loan amount and the interest amount have been fully recovered during the relevant period. Interest income should be accounted for as per the agreement.

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

	<b>Reference to Non-compliance Laws, Rules, Regulations</b>		<b>Comment of the Management</b>	<b>Recommendation</b>
(a)	Section 14 of Deed of Trust of the Farmers' Trust Fund dated 09 March 1994	A staff recruitment procedure for the Trust Fund had not been developed.	In this regard, audit and management committee was also discussed in the meeting and accordingly further actions is being done.	A staff recruitment procedure should be developed.
(b)	Paragraph 15.1 and Part I of Public Finance Circular No. 01/2020 dated 28 August 2020 (FR 876(2))	Non statutory funds that are currently in operation should be cancelled with immediate effect and their balances should be credited to the consolidated fund, otherwise such funds should be legalized by act of Parliament if there are reasonable reasons to continue. However, this fund which was established by the Deed of Farmers' Trust dated 9 March 1994 had not acted accordingly.	The Farmers' Trust Fund is operated by a deed of trust and further actions is been taken on the relevant bill	According to the circular, Actions should be taken to legalize through an Act of Parliament.
(c)	Chapter 07, Annexure I, Forms and Guidelines 5 related to Public Finance Circular No. 01/2020 dated 28 August 2020	An action plan was not prepared for the year under review to fulfil the objectives of the farmers' trust fund.	The surplus money available in the Farmers' Trust Fund is more effectively invested in fixed deposits and treasury bills and the money is used as needed for implementation of development programmes	An Action Plan should be prepared and acted upon

## 2. Financial Review

### 2.1 Financial Results

The operating results for the year under review was a surplus of Rs.611,553,842 as compared with the corresponding surplus of Rs.48,833,512 for the preceding year. Accordingly, an increase of Rs.562,720,330 was observed in the financial results. This increase was mainly due to receipt of Govisetha Lottery Income from the General Treasury and increase in Interest Income during the year under review as compared to the previous year.

### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) Between 2002 and 2004, a loan amounting to Rs.102,662,700 was provided to the National Livestock Development Board on 9 occasions, with an agreement to repay Rs.9,000,000 within one year and the remaining Rs.93,662,700 immediately upon the sale of the Mahaberiyatenna Watta in Kandy. But at the time of agreement, the land had been leased to an external party for 99 years and as of December 31 of the year under reviewed, although 21 years had passed since the loan was given, the outstanding loan balance was Rs.49,512,700 and the accrued interest was Rs.98,023,448.	A monthly installment of Rs.500,000 is currently being charged from the loan that was provided to the National Livestock Development Board. On January 17, 2023, the Board of Directors of the Farmers' Trust Fund decided that the remaining loan amount should be fully paid off and the institution has informed that it doesn't have the financial ability to pay off the entire loan balance at once.	Action should be taken to recover the outstanding loan.
(b) In the year 2020, a loan amount of Rs.200,000,000 was given to the Department of Agricultural Development for the farmers who grow maize and an interest amount of Rs.1,788,650 was supposed to be charged for it, but no interest amount had been collected.	Noted to take actions for collect the relevant interest.	Action must be taken to collect the interest.
(c) In the year 2016, an amount of Rs.500,000 was given to a farmer for potato crop cultivation after agreeing to recover it within 24 months, but the project was not completed and even after 7 years, the loan amount and interest were not recovered.	Legal action regarding this outstanding loan balance is currently being taken by the Agrarian Tribunal.	Action must be taken to recover the loan amount and interest.

#### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) An interest-free loan of Rs.5,966,000 was given to Ran Geviliya Social Enterprise Public Company in the year 2018 on the basis of payment in one year, but the relevant amount was not recovered till the year under review.	This matter has been referred to the Attorney General's Department for legal action.	Action must be taken to collect the loan amount.

- (b) The outstanding balance to be recovered from the loan amounts given from time to time by the Trust Fund to the Department of Agricultural Development for providing loans to farming companies was Rs.14,347,914 and a period of time from 24 to 32 years had passed. Action is being taken to recover the amount. The loan amount must be collected promptly.
- (c) In 2002, when the Revolving Fund and the Agricultural Trust Fund were merged and the Farmers' Trust Fund was established, 10 retired officers were appointed to recover the short-term loan balance of Rs.44,255,850 of the revolving fund assigned to the fund by paying allowances of Rs.1,490,000 in the year 2014, but the uncollected loan balance still amounts to Rs.39,909,275. According to the investigation carried out in the year 2014, more than Rs.4.3 million have been charged from the revolving fund loan balance and a committee has been appointed to deal with the remaining loan balance and further work is being done. Action must be taken to collect the loan amount.
- (d) Rs.860,000 from the loan amount granted to a private company in the year 2003, along with an accrued interest value of Rs.816,666, remains to be collected. Action regarding the outstanding loan balance to Prime Herb Lanka Private Limited has now been referred to the Attorney General's Department for further proceedings. Action must be taken to collect the loan amount.
- (e) The loan balance of Rs.2,451,780 provided to 63 farmers who produce large onion seeds remained unpaid by the year 2016. This loan balance is charged in installments. There is a delay in collecting money from the concerned farmers and receiving it to the head office through the Agricultural Service Committees and receiving the money to the Farmers' Trust Fund. The Department of Agricultural Development has been informed to settle this balance promptly. In relation to this loan, the balance as on April 30, 2024 is Rs.11,851,087. Action must be taken to collect the loan amount as agreed.

- (f) A balance of Rs.13,223,746 is due from the loan amount provided to the Commissioner General of Agricultural Development in 2015, intended for farmers growing maize in the Anuradhapura District, under the condition of recovery within one year. This loan balance is also charged in installments. There is a delay in collecting money from the concerned farmers and receiving it to the head office through the Agricultural Service Committees and receiving the money to the Farmers' Trust Fund. Action must be taken to collect the loan amount as agreed.
- (g) A loan advance of Rs.50 million for the emergency seed paddy purchase program to meet the national seed paddy requirement of the 2022/23 Maha season was given to the Department of Agriculture on 21 July 2022 and remained idle in that department for one month and the amount was returned to the Agrarian Development Department on 20 August 2022. Of that amount, Rs. 36,656,960 had not been used and it was 73.31 percent of the total amount provided. The Department of Agrarian Development informed 21 districts to request the required funds for purchasing seed paddy. Although an estimate of Rs. 50 million was prepared for this, by the time the funds were received, there was a high price for buying seed paddy in the private sector and became difficult for Agrarian Service Centers to carry out the purchasing within the allocated budget. As a result, only 4 districts Hambantota, Mannar, Badulla, and Kegalle requested a total of Rs.24,600,000 ,which was provided. However, 2 districts reimbursed Rs.11,256,960 to the Department of Agrarian Development because they could not purchase seed paddy within the budget limits. It must be confirmed that the received loan will be used for the intended purpose.