

## **Farmers' Trust Fund – 2024**

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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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Although the financial statements showed a balance in the savings account of Rs.7,241,656, current assets were overstated by this value since there was no such balance in reality.	During the merger of the Revolving Fund, the Agricultural Trust Fund and the Farmers' Trust Fund in 2002, this balance was transferred to the Fund as a book value only. Actions are being taken to remove this balance from the accounting books.	Only the balances that are actually exist should be accounted for.
(b) The balances of other interest receivable of Rs.939,010, short-term loan receivable of Rs.12,923,393 and the Farmers' Committee loan balance of Rs.9,112,579 which were taken over when the Trust Fund was established are balances whose recoverability is uncertain or does not actually exist and no impairment provisions have been made for them.	Instructions given by the audit will be followed regarding the balance of other interest receivable of Rs.939,010. Out of the short-term loan receivable of Rs.12,923,393, committees consisting of Ministry officials have been appointed regarding the balance of Rs.700,218 and the balance of Rs.7,923,175 and further action is being taken in this regard. The balance of Rs.4,300,000 is the balance of two farming companies and has been referred to the Attorney General's Department for further action.	Impairment Provisions should be made for uncertain balances.
(c) No evidence was submitted to substantiate the farmers' deposits worth Rs.697,644, the share account worth Rs.591,965 and the Govisetha Fund worth Rs.159,399,408 and the interest receivable of Rs.17,798,678 transferred when the Farmers' Trust Fund was established and the accuracy of those balances could not be verified. Furthermore, no provisions for impairment had been made for them.	All these balances are the balances that existed under the Revolving Fund when the Revolving Fund, Agricultural Trust Fund and Farmers Trust Fund were merged in 2002 and this balance has been transferred to the Farmers Trust Fund as a book value only. The Fund does not have a list of balances for this to submit to the audit.	Written evidence should be provided to verify the accuracy of balances and impairment provisions should be made for uncertain balances.

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

	Reference to Laws, Rules, Regulations	Non-compliance	Comment of the Management	Recommendation
(a)	Public Finance Circular No. 01/2020 dated 28 August 2020			
(i)	FR 756(6)	The board of survey reports had not been forwarded to the Auditor General in accordance with the regulations..	The Fund's board of survey is conducted through the annual board of survey conducted under the Ministry of Agriculture, and the Ministry includes the Fund's board of survey details in their board of survey report and submit it to the Auditor General.	The board of survey reports should be forwarded to the Auditor General.
(ii)	FR 876(3)	Non-statutory funds should be abolished with immediate effect and their funds should be credited to the Government Consolidated Fund. If there are reasonable reasons for continuing non- statutory funds, they should be legislated through an Act of Parliament, but no such action had been taken regarding this fund.	The Farmers' Trust Fund is operated through a deed of trust and further actions are underway regarding the relevant bill.	Actions should be taken to legalize it as a statutory fund through an Act of Parliament.
(b)	Section 3 of Guidelines 04 of Public Finance Circular No. 1/2020 dated 28 August 2020	In accordance with the guidelines, quarterly reports on the main activities of the Fund had not been submitted to the Auditor General with a copy to the Department of Public Finance and the Department of National Budget So that the progress of the fund could be reviewed at the end of each quarter.	At the end of each year, a performance report is prepared including the activities carried out by the Farmers' Trust Fund and forwarded to the Auditor General with copies to the Department of Public Finance and the Department of National Budget.	Quarterly reports on the main activities of the Fund should be submitted as scheduled.

(c) Deed of trust of the Farmers' Trust Fund dated 09			
(i) March 1994 Sub Section 3(1)	The objectives of the Farmers' Trust Fund are to improve the agricultural development and welfare of the farming community in the country, provide short-term agricultural loans to small farmers, provide agricultural inputs to small farmers, provide marketing loans to small farmers to bridging finance, assist small farmers in crop and animal production and production processes, and implement specific agricultural programs to facilitate agricultural development. Without planning projects to achieve those objectives, Rs. 1,237,584,880 in the investment and Rs. 112,947,833 were held in bank accounts at the end of the year under review.	After the issuance of the Public Expenditure Management Act, the implementation of projects has been limited and only projects arising from flood disasters and emergency needs were provided. Therefore, providing provisions for development programs has been limited. Also, as there is no specific decision yet regarding the further existence of the Farmers' Trust Fund at the end of 2024, as per the provisions of the public Financial Management Act No. 44 of 2024, the release of funds for new projects has also been temporarily stopped. Therefore, the surplus money in the fund has been invested.	Projects should be planned and funds should be utilized in a manner that achieves the objectives of the fund.
(ii) Section 14	A staff recruitment procedure for the Trust Fund had not been developed.	After reaching a specific decision regarding the further existence of this fund, it is proposed to establish it through an Act and then prepare a staff recruitment procedure according to the service requirements and carry out the necessary activities.	A staff recruitment procedure should be developed.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a surplus of Rs.58,801,653 as compared with the corresponding of Rs.611,553,841 for the preceding year. Accordingly, a decline of Rs.552,752,188 was observed in the financial result. This decrease was mainly due to the non-receipt of Govisetha Lottery income from the General Treasury during the year under review as compared to the previous year.

### 3. Operating Review

#### 3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Between 2002 and 2004, a loan amounting to Rs.102,689,700 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 Mahaberiya Watta in Kandy. However, at the time of the agreement, the land had been leased to an external party for 99 years, and although 21 years had passed since the loan was granted, the outstanding loan balance of Rs.43,512,700 and the accrued interest of Rs.98,023,448 remained outstanding.	A monthly instalment 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 institute 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 and interest.
(b) In 2016, an amount of Rs.1,000,000 was approved from the fund with an agreement to recover it within 24 months and out of this, Rs.500,000 was released to a farmer in Walapana village, Nuwara Eliya for potato cultivation. The remaining amount had not been released as the Assistant Commissioner of Agrarian Development in charge of that province had reported that the project had not been successfully implemented and even though 8 years had passed, the loan amount and interest had not been recovered.	Noted to take steps to recover the relevant loan interest.	Action must be taken to recover the loan amount and interest.
(c) The interest amount of Rs.1,900,791 due for the loan of Rs.200,000,000 provided to maize farmers had not been recovered to date.	The Agrarian Tribunal is taking further legal action regarding this loan balance.	Action must be taken to recover the loan amount and interest.
(d) The Fund did not have details of the officers who provided the loan to verify the value of the loan of Rs.1,009,457 provided to officers to purchase motorcycles.	This balance is a further balance due in relation to the motorcycles provided to field officers and we have made a note to inform the relevant institutions and settle this balance.	Information should be obtained about the officers who have taken out loans and steps should be taken to recover the relevant loans.

### 3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) An interest-free loan of Rs.5,966,000 was provided to the Ran Geweliya Social Enterprise Public Company, which was established with the aim of cultivating 3,000 acres of paddy fields in the Polonnaruwa district in 2018/2019 according to the Global Gap certification methodology, educating the farmers about international standardization methodologies and achieving economic benefits by following environmentally friendly sustainable agricultural methods. Although it was expected to provide GAP (Good Agriculture Practice) certification for the paddy production of the farmers by March 2019 according to the project timeframe, no steps had been taken to provide the relevant certificate or recover the amount provided.	The matter has been referred to the Attorney General's Department to take the necessary legal action to recover the loan.	Action must be taken to collect the loan amount.
(b) Out of the loan of Rs.3,500,000 given to a private company called "Prime Herb Lanka" in 2003, Rs.860,000 and accrued interest of Rs.886,666 remained to be recovered.	The matter has been referred to the Attorney General's Department for necessary further action.	Action should be taken to recover the loan amount.
(c) Action had not been taken to recover Rs.1,538,064, which was not collected, from the loan amount of Rs.11,370,000 provided to 63 farmers producing big onion seeds in 2016.	These loans are being recovered in installments. Out of the 9 borrowers who have not paid the loans, 8 have been referred to court and the other borrower has died. The Department of Agrarian Development has informed that the Agrarian Tribunal has given instructions to collect that amount from the spouse.	Action must be taken to recover the loan amount.
(d) Rs.90,000,000 was given to the Commissioner General of Agrarian Development in 2015 to be given to 10,000 farmers cultivating maize in the Anuradhapura District under the condition of recovery within one year. Although 9 years have passed, the balance of Rs.10,944,488 has not been recovered.	The loan amount is being recovered in installments. The Department of Agrarian Development has informed that 844 farmers have been referred to the Agrarian Tribunal regarding the loan balance.	Action must be taken to recover the loan amount.

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| (e) | Out of the short-term loan of Rs.2,322,375 issued to the Uva Agrarian Services Commissioner in 1999 for the production of red onion seeds, Rs.1,376,878 has not been recovered to date.   | This is a balance taken over when the Agricultural Trust Fund was merged with the Farmers' Trust Fund in the year 2002. A committee consisting of ministry officials has been appointed for future actions in this regard. In the year 2025, an amount of Rs. 22,250 has been recovered. | Action must be taken to recover the loan amount.            |
| (f) | In the year 2020, Rs.225 million was provided to the Department of Agrarian Development as maize loans and for cultivating fallow fields, and although the due date has passed, Rs.10,793,661 of this had not been recovered by the end of the year under review.   | These loans are being recovered in instalments. The Department of Agrarian Development is taking further steps to recover these loans.   | Action must be taken to recover the loan amount as agreed.  |
| (g) | Out of the Rs.90,000,000 provided to the District Secretary, Anuradhapura for the purchase of traditional paddy in 2014/2015, an amount of Rs. 2,106,828 remained unrecovered.  | A committee report has been obtained regarding this balance and steps are being taken to remove it from the accounts.  | Action must be taken to recover the loan amount as agreed.  |
| (h) | Advances of Rs.19,061,740 given to the Commissioner General of Agrarian Development for rice milling, minor irrigation renovation, cultivation of fallow fields, purchase of pumpkins and purchase of seed paddy had not been repaid for a period of between 3 and 24 years.  | Actions will be taken promptly settle the outstanding balance of Rs.19,061,740 given to the Department of Agrarian Development as indicated by the audit.  | Action should be taken to recover as agreed.                |
| (i) | Although an amount of Rs.891,000 was provided to the Commissioner General of Agrarian Development on 12 June 2024 for the reconstruction of the Eriyagahamulla anicut and the reconstruction of the Narammala Middle Canal with the aim of providing relief for the disasters that have occurred due to the sudden flood situation, it was returned to the Fund on 04 March 2025, stating that the amount specified in the estimate for the relevant work was not sufficient. | Due to the non-implementation of these projects, the Commissioner of Agrarian Development was informed to send this money back to the Farmers' Trust Fund as per the decision of the Board of Directors. Accordingly, the relevant money has been sent to the Farmers' Trust Fund.       | Approved projects must be carried out.                      |
| (j) | The funds of the Trust Fund had been continuously invested in fixed deposits and treasury bills without utilizing the funds to implement the main objective of establishing the Farmers' Trust Fund. As on 31st December of the year under review, Rs.1,140,000,000 had   | After the issuance of the public Expenditure Management Act, the implementation of projects was limited and only emergency projects were provided with funds. Since there is no definite decision yet  | Action must be taken to achieve the objectives of the fund. |



been invested in fixed deposits and Rs.97,584,880 in treasury bills, earning an interest income of Rs.111,384,101.

regarding the further continuation of the fund, the release of funds for new projects was also temporarily stopped. Therefore, the surplus money available in the fund has been invested.

- (k) While preparing the agreements related to the process of granting loans by the Trust Fund, all the conditions to be included in it, the method of charging interest should have been clearly defined and included, but this had not been done. For example, when granting loans to the Paddy Marketing Board, the clauses regarding the charging or not of interest in relation to the period from the date of granting the loan to the date of commencement of its repayment had not been included in the agreement. Furthermore, although the loan agreements state that a penalty interest should be charged on default in repayment of the loan, it had not been clearly included in the agreement whether such charging would be on the principal amount only or on the entire interest and principal amount. Although a penalty interest should have been charged for non-payment of the loan amount and interest as prescribed, it had not been charged.
- As per clause 03.(c) of the agreement, the repayment of the loan amount is from 2023.10.01 to 2024.01.31. Therefore, since the entire loan amount and interest have been repaid to the Farmers' Trust Fund by 2024.01.31, no action has been taken to recover the penalty interest. I have taken note to pay special attention to this matter in future loan releasing and to specify the conditions to be included in it.
- The terms and conditions for recovering the loan should be clearly stated in the agreements.