

## **Agrarian Development Fund - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Agrarian Development 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, statements 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. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 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**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 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 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; 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 the Financial Statements**

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

<b>Non-compliance with reference to the relevant standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
In accordance with Sri Lanka Public Sector Accounting Standard No. 20, computer software amounting to Rs.4.87 million had not been indicated separately in the statement of financial position and was indicated under property, plant and equipment.	Action will be taken to separately indicate computer software in preparing the accounts of the year 2025.	In accordance with the Accounting Standard, the value of computer software should be indicated separately in the statement of financial position.

### **1.5.2 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though the provision for depreciation of fax machines by 31 December 2024, as per the Fund's ledger, was Rs.310, 450, the same value was indicated as zero in the statement of financial position.	Action will be taken to rectify the provision for depreciation of fax machines in preparing the accounts for the year 2025.	Provisions for depreciation should be accurately indicated in the statement of financial position.
(b) In previous years, the amount due from farmers as installments for the value of 2-wheel tractors, 4-wheel tractors and 2KR water pumps received as Japanese Yen Aid and distributed to farmers on a recovery basis had been debited from the debtor account and credited to the unrealized deposit installment account. In the year under review, the amount of Rs. 6.13 million received as installments had been credited to the income of the year under review, and since those accounts were not removed from the debtors and installment accounts, such accounts had been overstated in the statement of financial position.	Officers will be informed to adjust the accumulated income by crediting the amount of Rs.6.13 million received during the year under review from the debtors of the 02-wheel tractor, 04-wheel tractor and 2KR water pump provided to the farmers as Japanese Yen Aid.	Action should be taken to remove receipts of debtor installments from the debtor installment account and unrealized deposit installment account.
(c) The value of Rs.20.26 million incurred for the information management software system, which was started in 2022 and has not been completed to date, was not accounted under work in progress but under machinery, resulting in machinery being overstated and work in progress being understated.	Officers will be informed to take action to account under the work in progress in the information management software system in preparing the accounts for the year 2025.	Action should be taken to accurately account the costs incurred for the software system.

### 1.5.3 Unreconciled Control Accounts or Reports

	Item	Value as per financial statements(Rs.M)	Value as per corresponding reports (Rs.M.)	Difference (Rs.M.)	Management Comment	Recommendation
(a)	Watersheds Manual	0.82	0.49	0.33	The relevant officers were informed to rectify the error in the preparation of the accounts for the year 2025.	The difference between the balances should be identified and settled.
(b)	Cash Balance	424.44	425.09	0.65	The officers were informed to take the necessary action to rectify this error in the future.	The difference between the relevant balances should be identified and settled.
(c)	2-wheel tractor, 2-wheel tractor trailer, 4-wheel tractor, 4-wheel tractor trailer, 2KR water pumps	130.88	114.38	16.50	The officers were informed to take necessary action to rectify in preparation the financial statements for the year 2025.	The difference between the schedule balance and the financial statement balance should be identified and settled.

## 1.6 Receivables and Payables

### 1.6.1. Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Action had not been taken to recover the amount of Rs. 3.94 million due for a period of 10 years for the 02-wheel tractor trailers and 04-wheel tractor trailers provided by the institution to the Agrarian Services Centers and Farmer Organizations in the year 2010.	The 02-wheel tractor trailers and 04-wheel tractor trailers provided in the year 2010 have been in use for a long time. Due to the shortage of spare parts for these trailers, many of the machines and equipment have been removed from use. As at 31.12.2024, Rs. 0.35 million has been recovered for the 04-wheel tractor trailers and there is an amount of	Action should be taken to recover arrears promptly.

Rs. 2.52 million to be recovered further. Action is being taken to recover that amount. The total value of the 02-wheel tractor-trailers is Rs. 2.35 million, and as at 31.12.2024, Rs. 0.92 million has been recovered, and since there are arrears of Rs. 1.43 million, action is currently being taken to recover those arrears.

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| (b) | Even though the amount due for the 02-wheel tractors provided to farmers in the years 2006, 2008, 2010 and 2012 under the Japanese Yen Aid Project should be recovered by 2015, action has not been taken to recover an amount of Rs. 97.97 million to date.                 | Action is being taken to recover the amount due for the 02-wheeled tractors provided in the years 2006, 2008, 2010 and 2012, and by 31.12.2024, an amount of Rs.121.69 million has been recovered. The amount to be further recovered is Rs. 97.97 million. Action is currently being taken to recover the arrears.                            | Arrears should be recovered promptly. |
| (c) | Action had not been taken to recover the outstanding balances of Rs. 2.47 million for the 2KR project water pump installments and Rs. 9.99 million for the 04-wheel tractor installments, which have been due for more than 05 years and are included in the debtor balance. | By 31.12.2024 Rs. 9.22 million out of the water pump value of Rs. 11.70 million has been paid, and action is being taken to further recover an amount of Rs. 202.47 million, and Rs. 1.71 million has been recovered by 31.12.2024 of the 04-wheel tractor installments, and action is being taken to recover the arrears of Rs. 9.99 million. | Arrears should be recovered promptly. |

#### 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules, Regulations etc.	Non-Compliance	Management Comment	Recommendation
(a)	Section 97(2)(e) of the Agrarian Development Act, No. 46 of 2000 and the Circular No. 439/92 dated 03 August 1992 issued by the Commissioner of Agrarian Services	Action had not been taken to recover the 20 percent acreage tax revenue of Rs. 15.67 million due from the Agrarian Services Centers in accordance with the Act by 31 December 2024.	The Agrarian Development Committee has referred letters of reminders to collect contributions receivable to the Fund for the year 2024 and for the years prior to that, and action is being taken to recover those amounts promptly.	Acreage tax revenue should be recovered promptly.

(b) Section 97(3) of the Agrarian Development Act, No. 46 of 2000	An amount of Rs. 1.69 million had been paid from the Fund for the purchase of air conditioners and an Identity Card printer at the Department of Agrarian Development, contrary to the section.	Air conditioners and Identity Card Printers were purchased under the general expenditure of the 2024 Budget Estimate of the Agrarian Development Fund, and it was done in accordance with Section 97(3) of the Agrarian Development Act.	The money of the Fund should be utilized in accordance with the Act.
(c) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka			
(i) F.R. 633	11,840 counterfoil books at a value of Rs.2.79 million were printed by a private printing institute without consulting the Government Printer and without the approval of the Secretary to the Ministry.	Quotations were called from 12 institutions including the Department of Government Printing. Accordingly, 06 institutions including the Department of Government Printing submitted quotations, and New Asiri Printers, which submitted the lowest quotation, was approved by the Department Procurement Committee as per the recommendation of the Technical Evaluation Committee.	The relevant receipt books should be printed by the Department of Government Printing in accordance with the F.R.
(ii) F.R. 756	The fixed assets owned by the Fund had not been surveyed to date.	Necessary arrangements have been made to conduct an annual board of survey of fixed assets before preparing the final accounts for the year 2025.	Annual board of survey should be conducted in accordance with the F.R.
(iii) F.R.876(3) of Public Finance Circular No. 01/2020 dated 28 August 2020	Non-statutory funds should be dissolved with immediate effect and its money should be credited to the Government Consolidated Fund and if there are reasonable grounds for continuing to maintain non-statutory funds, they should be legalized through an Act	During the discussion held at the Ministry of Finance on 09.01.2025 under the chairmanship of the Director General of Public Finance, it was discussed that this Fund is a statutory fund and that measures should be taken to dissolve the Fund by amending the relevant section of the Act that provides allocations by the	Action should be taken in accordance with the Public Finance Circulars and the F.R.

of Parliament. However, Department of National action had not been taken Budget for the functions accordingly in relation to performed by the Fund. this Fund. Accordingly, it has been planned to carry out further actions.

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| (d) | Treasury Circular No.842 dated 19 December 1978 | A fixed asset register had not been maintained for the property, plant and equipment amounting to Rs. 120.06 million indicated in the financial statements. | A fixed asset register had not been maintained for the property, plant and equipment amounting to Rs.120.06 million indicated in the financial statements. | Action should be taken to maintain a fixed asset register in accordance with the provisions of the Circular. |
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## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 83.39 million and the corresponding surplus of the previous year amounted to Rs. 49.22 million. Accordingly, an improvement amounting to Rs. 34.16 million was observed in the operating result. This improvement was due to an increase in acreage tax revenue of 82 percent and deterioration in expenditure of 40 percent.

## 3. Operational Review

### 3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The investigation into the stock shortage of Rs. 450,000, which had been ongoing since last year, had not been completed by the end of the year under review and action had not been taken to recover the loss.	This stock shortage has been shown in the final accounts of the Agrarian Development Fund since 1996, and the Committee appointed to examine this matter has recommended that an investigation should be conducted by the parties involved. The Disciplinary Division will also be informed in this regard, and proper measures will be taken accordingly in the future.	Action should be taken to conduct investigations and recover the losses.
(b)	The amount of Rs. 29.90 million given as advance to the Agrarian Services Centers and officers has not been settled to date.	The relevant parties have been informed regarding the settlement of advances given for the improvement and development of the supply of Agrarian Services Centers, maintenance of building equipment, development of physical resources, marketing promotion activities, and training of the farming community, and action will be taken to settle the same in the future. Further, the advances given for the Agrarian Awards have already been settled.	The advance amount should be settled promptly.

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| (c) | The income of Rs. 6.33 million received from the auction of tractors and agricultural equipment during the year under review was retained in the Fund without being remitted to the Treasury.   | It is mentioned that the income of Rs. 6.33 million stated as income from auction in the Financial Performance Report for the year under review is income from the auction of tractors and agricultural equipment. | The income from the auction of tractors and agricultural equipment should be remitted to the Treasury. |
| (d) | Even though a budget estimate of Rs.9,000,000 had been prepared for the introduction of new technology for farmer organizations/women farmer organizations/youth farmer organizations, action had not been taken to carry out that work in the year under review. | The observation is correct.  | Needs should be identified accurately and the budget document should be prepared.                      |

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Even though a provision of Rs. one million had been allocated for the creation of a management information system, action had not been taken to complete the work during the year under review.	A provision of Rs. one million was allocated to create a management information system for the Agrarian Banks and Agrarian Services Committees of the 04 Agrarian Service Centers. Agrarian Development Regional Officers attached to Agrarian Service Centers in Colombo, Gampaha, Kurunegala and Anuradhapura Districts, officers representing the Committee, and officers representing the Agrarian Banks participated in this project and the bills related to the expenses incurred for this pilot program have already been settled. After solving the practical issues identified during the pilot project conducted in July and August 2024 regarding the Management Information System, live operations and training programs for all the Agrarian Services Committees are scheduled to be carried out. Accordingly, the revision and further development of the information system is currently underway.	Action should be taken to complete the creation of the information system expeditiously.