

Agrarian Development Fund – 2019

1.1 Adverse Opinion

The audit of the financial statements of the Agrarian Development Fund for the year ended 31 December 2019 comprising the statement of financial positions at 31 December 2019 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 the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters described in Paragraph 1.5 of this report, the accompanying financial statements do not give a true and fair view of the financial position of the Fund as at 31 December 2019, 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 Adverse Opinion

I express an adverse 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 adverse 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 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.

1.4 Auditor's Responsibility in Auditing 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. 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 to cease to continue as a going concern.
- Evaluate the 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 governing parties were made aware on important audit findings identified during my audit, major internal control weaknesses and other issues.

1.5 Financial Statements

1.5.1 Sri Lanka Public Sector Accounting Standards

Audit Observation	Comments of the Management	Recommendation
<p>(a) Material prior period errors should be adjusted retrospectively and restate the comparative amounts in the financial statements issued after their discovery and it should disclose about the nature of those errors and how they were adjusted in the financial statements in accordance with Paragraph 47 of Standards No. 03. However, although the errors in the financial statements in relation with the preceding year amounting to Rs. 194,969,772 were corrected and restored in the year under review, it had not been disclosed in the financial statements.</p>	<p>Arrangements will be made to prevent such mistakes in future.</p>	<p>Actions should be taken in accordance with the Sri Lanka Public Sector Accounting Standards.</p>
<p>(b) Income and assets should be taken into accounts on accrual basis in terms of Paragraph 7 of Standard 01 and although it had also been stated that the accrual basis is followed in the notes to the accounts No. 01, the acreage tax revenue and tractor trailer revenue had been taken into accounts on cash basis.</p>	<p>It is kindly informed that the details disclosed by the audit query will be studied furthermore and actions will be taken accordingly in future.</p>	<p>Actions should be taken in accordance with Sri Lanka Public Sector Accounting Standards.</p>

1.5.2 Accounting Deficiencies.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The balance adjusted as hand tractor debtors for the statement of financial position as at 31 December 2019 was Rs. 132,505,955. However, as a result of the deduction of Rs. 2,551,196 of tractor installments received in</p>	<p>These arrears are further recorded in the tractor instalments as the resale or disposal activities of acquired tractors have not been completed yet due to non-</p>	<p>Accounting deficiencies should be corrected.</p>

excess from the year 2006 to 2012 payment of instalments. from that balance, the debtor balance had been understated by the same amount. Further, as a result of the arrears instalments were defaulted, actions had not been taken to deduct the arrears of tractors acquired amounting to Rs. 11,499,951 from the debtors.

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| <p>(b) The balance of Rs. 2,830,503 receivable as at 31 December 2019 provided to farmers for water pumps on loan basis under the Japanese Aid Project in the year 2010 had not been taken into accounts.</p> | <p>Actions will be taken to take into financial statements for the year 2020.</p> | <p>Receivables should be taken into accounts.</p> |
| <p>(c) The balance of Rs. 16,020,000 receivable as at 31 December 2019 provided to Agrarian Services Centres for tractors under the 2KR Japanese Aid Project in the year 2012, had not taken into accounts.</p> | | |
| <p>(d) Instead of capitalization of the capital expenditure made for the construction and repair of Agrarian Services Centres and sales outlets during the year under review amounting to Rs. 5,119,132 had been taken into accounts as the expenses of the year. As a result, the amount of depreciation for the year under review had been understated by Rs. 511,913.</p> | <p>Actions will be taken to make the relevant adjustments and do the corrections in preparation of financial statements for the year 2020.</p> | <p>Capital expenditure should be properly identified in terms of Sri Lanka Public Sector Accounting Standards.</p> |
| <p>(e) Out of the balance of Rs. 4,749,500 stated in the financial statements as tractor trailer debtors, the value of the disposed tractor trailers amounted to</p> | <p>Actions will be taken to correct in preparation of the financial statements for the year 2020.</p> | <p>Disposed assets should be deducted from debtors.</p> |

Rs. 1,378,500 had not been deducted from the debtors as at 31 December of the year under review.

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| <p>(f) The tractor loan instalments amounted to Rs. 13,588,381 charged from the farmers in relation with the previous years had been taken into accounts as an income of the year under review.</p> | <p>Since the tractor instalment income earned during the year is recognized as an income from the Fund, the tractor loan instalments charged from farmers during the year under review amounted to Rs.13,588,381 was calculated as an income for the year.</p> | <p>The income related to each year should be properly identified.</p> |
| <p>(g) The Acreage Tax Income receivable as at 31 December 2018 had not been adjusted to the accounts and only the Acreage Tax Income amounted to Rs. 3,062,226, relevant to the previous years but received during the year under review had been stated in the accounts as an income of the year.</p> | <p>Actions will be taken to rectify this in the next year.</p> | <p>The income related to each year should be properly identified.</p> |
| <p>(h) When refunding the permit incomereceived in relation to previous years amounting toRs.1,008,340 to the Agrarian Service Centres had been stated in the statement financial performance as permit revenue for the year under review instead of adjusting the permits income payable account.</p> | <p>Actions will be taken to correct in preparation of the financial statements for the year 2020.</p> | <p>The permit income related to the Fund should be properly identified.</p> |

1.5.3 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
----- Actions had not been taken to recover the sum of Rs. 4,816,075 receivable from a period of 09 years for two Wheeled Tractor Trailers and four Wheeled Tractor Trailers provided to Agrarian Service Centers and Farmers Organizations in the year 2010, even by 31 December 2019 in the year under review.	----- A suitable arrangement will be made to study them and recover the arrears or dispose of them once the reports are received from the Districts.	----- Debt balances receivable have to be recovered.

1.5.4 Unexplained Differences

Audit Observation	Comments of the Management	Recommendation
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(a) Even though the balance of the deposit account as per the books of the Funds at 31 December 2019 was Rs. 253,227,092, the balance of the deposit account as per the Treasury books was Rs. 255,879,240. Accordingly, actions had not been taken to identify the difference of Rs. 652,148 and to be settled.	The, main account of the Department and the account of the Fund were combined in the year 2008. This difference of Rs. 651,797 has arisen so before combining and the recommendations made by the committee appointed to look into this matter were received after the preparation of the financial statements 2019 and it is stipulated to be studied and make necessary adjustments in the financial statements for the year 2020.	The difference needs to be identified and settled.
(b) Although the permit fee and landfill revenue for the year under review was Rs. 9,258,440 as per the reports of the Productivity Development and Marketing Division, a sum of Rs. 6,680,005 had not been stated as permit fee and landfill revenue in the statement of financial	It is kindly informed that the relevant corrections will be made in the preparation of financial statements for the year 2020 and steps will be taken to prevent these errors in future.	The balances of the financial statements should be reconciled with the schedules of the relevant Divisions.

performance for the year ended 31 December 2019.

Accordingly, the difference was Rs. 2,578,434.

(c) Even though the 60 per cent permit fee to be paid by 31 December 2019 was Rs. 18,705,804 as per the reports of the Productivity Development and Marketing Division, it had been stated as Rs. 22,890,972 in the statement of financial position. Accordingly, the difference was Rs. 4,185,167.

(d) Although the 20 per cent of Acreage Tax revenue received to the Agrarian Development Fund as at 31 December 2019 as per the reports of the Service Division was Rs. 2,712,735 and the 20 per cent of Acreage Tax revenue in the financial performance statement for the year ended 31 December 2019 was Rs. 27,493,983. Accordingly, the difference was Rs. 366,632.

Actions will be taken to rectify this error in preparation of financial statements for the year 2020.

The balances of the financial statements should be reconciled with the schedules of the relevant Divisions.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Agrarian Development Act No. 46 of 2000 as amended by the Agrarian Development (Amendment) Act No. 46 of 2011			
(i) Sub-section 56(1)	Although the Acreage Tax collection activities	Arrangements have been made to implement	Acreage Taxes should be charged as per the

		of a particular year should be carried out before 31 March of the same year, the collection of Acreage Tax for the year under review had not been completed even by 31 December 2019.	programmes to collect Acreage Tax and to get the 20 per cent contribution of the Fund to the Head Office before the due date within the next year.	provisions of the Act.
	(ii) Sub-section 97(3)	Any agricultural research which was a task and a function the Fund had not been carried out during the year under review and the preceding years.	Since we do not have the human resources for agricultural researches, it is expected make arrangements to work on that from next year.	Actions should be taken to fulfil the objectives of the Act.
(b)	Financial Regulation 371 (5) amended by Public Finance Circular No. 3/2015 dated 14 July 2015	The advances amounted to Rs.741,622 obtained by the 11 officers of the Fund during the year under review, had been settled with a delay a period ranging from 42 days to 189 days in contrary to circular provisions	The Internal Circular No. DAD/FIN/PAY/3 dated 6/22/2020 has been issued to prevent mistakes which happen due to non-recovery of advances received and the relevant Divisions have been instructed to strictly enforce the provisions stated therein.	Actions should be taken to recover the ad hoc sub-impress without delay.
(c)	Public Finance Circular No. 01/2014 dated 11 February 2014	An Action Plan for the Agrarian Development Fund had not been prepared for the year under review.	Arrangements will be made to prepare an Action Plan from the year 2020 onwards.	An Action Plan for the Fund should be prepared in accordance with the provisions of the Circular.
(d)	Circular No. 439/92 dated 03rd August 1992 by the Commissioner General of Agrarian Development	Although the contribution of 20 per cent of the Acreage Tax levied in a given year should be credited to	All the District Deputy/ Assistant Agrarian Development/ Commissioners in charge have been instructed to credit the	The revenue of the Fund should be recovered in accordance with the circular provisions.

the Fund before 30 April of the same year, a sum of Rs. 687,049 of Acreage Tax levied by the Agrarian Service Centres relating to the year under review had not been credited even by 31 December 2019. 20 per cent contribution of the Acre Tax levied during the year to the account of the Deputy/ Assistant Commissioner of District Agrarian Development and to transfer the money to the Head Office expeditiously.

2. Financial Review

2.1 Financial results

The operating result for the year under review was a deficit Rs. 3,793,421 and the corresponding surplus for the preceding year was a sum of Rs. 49,014,580. Accordingly, a deterioration of Rs. 52,808,001 was observed in financial results. The decrease in Acreage Tax income by Rs. 3,048,306, the decrease in tractor and trailer income by Rs. 13,561,184, the increase in supply improvement and development expenditure by Rs. 3,809,671, the increase in expenditure on training officers by Rs. 25,215,175, the increase of depreciation of fixed assets by Rs. 1,400,059 and an increase of general expenditure by Rs. 8,166,423 had mainly attributed for this deterioration.

2.2 Management Activities

Audit Observation	Comments of the Management	Recommendation
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(a) Although it is not the function of the Fund to conduct an Agrarian Abhiman Programme during the year under review, a sum of Rs. 7,314,096 had been spent from the Fund.	It is stated that the expenditure incurred by the Agrarian Development Fund for the “Govijana Abhiman” Presidential Awards Ceremony to motivate farmers and officials and to create the institutional development of the Department.	Actions should be taken only to achieve the objectives of the Act.
(b) Actions had not been taken to recognize the officials responsible for the stock shortage amounted to Rs. 450,000 which was identified before 2006 and to recover the losses.	A Committee has been appointed to examine this stock shortage, descending even before the year 2006 and it is kindly informed that the actions will be taken to settle the stock balance after receiving the relevant recommendations.	Actions should be taken to recover the losses by expediting Financial Regulatory examinations.

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| <p>(c) Even though a sum of Rs. 1,095,000 had been obtained by the Fund during the years 2018 and 2019 from 03 applicants for granting certificates that it was not a paddy land and in order to provide certificate for the use of a paddy land for other purpose, permits had not been issued to applicants until 29 June 2020.</p> | <p>Licenses have not yet been issued as public objections and issues have arisen after receiving the service charges and no requests have been made by the applicants asking money back so far.</p> | <p>Licenses should be issued without delay for works for which the money for licenses has been obtained from applicants. If not the money of the applicants should be paid back.</p> |
| <p>(d) The disposal activities of 70 two wheeled tractors and four-wheeled tractors acquired due to defaulting of arrears instalments distributed under the Japanese aid project from 1989 to 2012 had not been completed by the end of the year under review.</p> | <p>As it was difficult to obtain the assistance of the motor vehicle inspector to carry out the valuation for the disposal of the tractors which had failed to pay the arrears, the disposal activities could not be completed.</p> | <p>Disposal activities should be carried out before the values of the assets depreciate.</p> |
| <p>(e) Although the instalment payments have already been completed for 1,174 two wheeled hand tractors, 23 four wheeled tractors and 20 two wheeled tractors distributed under the Japanese Aid Project, it had not been handed over to the relevant farmers even by the end of the year under review.</p> | <p>The ownership of the most of these tractors exists in the name of the Secretary to the Ministry of Agriculture and another 20 tractors have been sent to the Ministry of Agriculture for signing transfer notices. About 25 transfer notices have been received for the transfer activities.</p> | <p>Assets should be transferred to the farmers who had completed the paying of loan instalments.</p> |