

## **Agrarian Development Fund - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Agrarian Development Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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. 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 accompanying financial statements of the Fund give a true and fair view of the financial position of the institute as at 31 December 2020, 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**

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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**

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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 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 Institute.

#### **1.4. Auditor's Responsibilities for the Audit of the Financial Statement**

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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 audit 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. Material 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:

- In providing a basis for the published audit opinion, 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. 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 internal control.
- Evaluate the appropriateness of accounting policies used, the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the Fund'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 audit 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or Special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute 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 Preparing Financial Statements

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

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The material prior period errors shall be restored retrospectively in the first set of financial statements authorized for issue after their discovery and the nature and manner of those errors should be disclosed in the financial statements in terms of the paragraph 47 of the Standard No. 3. Even though, errors amounting to Rs.17,178,685 relevant to previous year had been corrected and restored in financial statements of the year under review, it was not disclosed in the financial statements.	Disclosed by the Common journal of the 2020 Ledger Account. Actions will be taken to prevent those notes from not appearing in the notes in the Development Fund's financial statement set in due course.	Actions should be taken in terms of the Sri Lanka Public Sector Accounting Standards.

### 1.5.2 Accounting Deficiencies.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though 40% of the permit income of the year under review, which should be credited to the Fund, is Rs. 5,306,044, Only an amount of Rs. 2,533,691 had been appeared as permit income in the Statement of Financial Performance. Accordingly, the income had been under stated by	The relevant adjustments will be made in the preparation of financial statements for the year 2021.	Permit income relevant to the Fund should be identified properly.

Rs. 2,772,353, and the same amount had been over stated in the receivable permit income account.

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| (b) | The 40% amount receivable to the Agrarian Development Fund from permit fees charged up to the month of November in year 2017 from Agrarian Service centres had not been identified and noted in accounts. Therefore, an amount of Rs. 11,553,621 receivable from 56 Agrarian Service Centres as at 31 December 2020 had not been noted in counts.  | Adjustments will be made in statement of accounts as soon as the information is received.                          | The permit income related to the Fund should be properly identified. |
| (c) | A total amount of Rs. 8,016,231 had been noted in accounts as an income of the year under review, which includes of a revenue of Rs. 22,800 from sales of "Govimina" magazines received for the previous years, unclaimed land inherited fee of Rs.301,943, Rs. 7,641,488 as 02 Wheel Tractor Loan instalment charged from farmers, and Rs. 50,000 as 04 Wheel Tractor loan instalments charged from Agrarian Service Centres. | Action will be taken to keep accurate accounts in the coming years.  | The income of each year should be properly identified.               |
| (d) | 02 Wheel Tractor Debtors had been understated by Rs. 2,551,196 as at 31 December 2019 and since the fact had not been rectified in the year under review also, 02 Wheel Tractor Debtors and the unrealised 02 Wheel Tractor instalment deposit account had been understated by the same amount as at 31 December 2020.   | It is informed that adjustments will be made in statements of accounts as soon as correct information is received. | Accounting Deficiencies should be rectified.                         |
| (e) | Even though the outstanding debt balance for the 04 Wheel Tractors is Rs.19,632,600 as at 31 December 2020, It had been stated as Rs. 11,305,000 in financial statements, and; therefore, the debt balance and balance of the unrealised 04 Wheel Tractor instalment deposit account had been understated by Rs. 8,327,600.  | A full investigation is currently underway to obtain the correct balance.  | Due balances should be noted properly in accounts.                   |
| (f) | Since the 20 percent acre tax contribution received for the year 2019 was Rs. 188,785 had been noted in accounts as an income of   | Action will be taken to correct this in the preparation of financial statements for the                            | The income for each year should be properly identified.              |

the year, the acre tax income in the financial year 2021. statements of the year under review and the sue acre tax income had been overstated.

### 1.5.3 Unexplained Differences.

----- <b>Audit Observation</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
(a) Even though the balance in the deposit account is Rs.259,321,334 as per the books of the Fund as at 31 December 2020, the balance in the deposit account was Rs. 259,973,482 as per the Treasury books. Accordingly, the difference of Rs.652,148 had not been identified and settled.	It had been proposed by the committee appointed to investigate the difference of Rs. 651,797 that it is appropriate to study each transaction relevant to the Fund within the said periods and take measures to identify and rectify the transactions which were caused to the difference.	The difference must be identified and resolved.
(b) Even though an amount of Rs.124,864,467 is shown as 02 wheel tractor debtors in the statement of financial position as at 31 December 2020, an amount of Rs. 124,088,017 was shown in the report provided by the services division. Accordingly, a difference of Rs.776,450 that had not been compared was observed.	It is kindly informed that action will be taken to prepare financial statements of the year 2021 after providing an accurate report by the Commissioner (Services) and studying them.	The balance of the financial statements should be compared with the schedules of the relevant divisions.

### 1.6 Accounts Receivable and Payable.

#### 1.6.1 Receivables.

----- <b>Audit Observation</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
Even though 04 Wheel Tractor arrears was amounting to Rs.19,632,600 by 31 December 2020, action had not been taken to charge the said amount from Agrarian Development Centres.	It is kindly informed that it is expected to take appropriate immediate actions.	Debt balances due should be recovered.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sub section 56(1) of the Agrarian Development Fund Act no. 46 of 2000 amended by the Agrarian Development Fund Act no.46 of 2011.	Even though the activities for levying acre tax in a particular year should be finished by 31 March of the same year, such activity had not been done during previous years and the year under review. There was an acre tax amounting to Rs. 20,990,383 that should be charged by the Agrarian Services Development Centres as at 31 December 2020.	Even though a programme had been implemented from 24 February 2020 to 01 March 2020 as the Acre Tax Week to make acre tax collection more efficient in year 2020, acre tax collection was interrupted by the Covid-19 situation prevailed in the country and action will be taken to collect due amount expeditiously.	Acre tax should be levied in accordance with the provisions of the Act.
(b) Financial Regulation 371 (5) amended by the Public Finance Circular no. 3/2015 dated 14 July 2015.	Even though the settlement of advance should not be delayed more than 31 December of the financial year in which it was issued, action had not be taken to settle a balance of advance amounting to Rs. 6,610,000 granted to district offices in last year for constructions and purchases even as at 08 March 2021, the date when audit was conducted.	Relevant Deputy / Assistant Commissioners have been informed several times to settle the advances made to the District Offices for construction and purchase during the last year ,and even though some vouchers regarding the settlement of those advances have been submitted to the Accounts Division, they were sent back to the relevant district offices due to shortcomings availed in the said vouchers, and it is kindly informed that necessary steps will be taken to settle these advances within the year 2021.	Action should be taken to settle Adhoc- Sub- Imprests without delay.

(c)	F.R. 371(5) amended by the Public Finance Circular no. 3/2015 dated 14 July 2015.	Even though immediate action taken should be taken to settle the obtained Adhoc-sub-Imprestts within 10 days of the completion of the relevant work, action had not been taken to settle a balance of advance amounting to Rs. 16,711,653 given in the year under review up to 08 March 2021.	Since preparation of proposals and calling estimates had been delayed due to lockdown in the country for nearly 03 months due to Covid 19 situation in year 2020, Several advances for construction activities made during the year under review have been sent to the districts within the last 03 months in the year 2020 and those works have not yet been completed. Similarly, as the government had restricted gathering of officers and the attendance of officers as per the rules and regulations on the Covid-19 situation, settlement of advances given for training programmes also delayed.	Action should be taken to settle Adhoc- Sub- Imprestts without delay.
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**2. Financial Review**

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**2.1 Financial Result**

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The operating result of the year under review amounted to a surplus of Rs. 22,035,319 and the corresponding deficit in the preceding year amounted to Rs.3,793,421 Accordingly, an improvement amounting to Rs. 25,828,740 of the operating result was observed. The reasons for the improvement are decrease of supply improvement and development expenditure by Rs. 10,102,210, decrease of officer training expenditures by Rs.15,057,824, decrease of Cost of maintenance and repair of building vehicles and equipment by Rs.4,429,141.

**2.2 Trend Analysis of major Income and Expenditure Items**

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20 percent acre tax revenue had increased by 7 percent in the year under review compared to the previous year under review. Sales income from water stream manuals, maps and cultivation season manuals, permit fees and refilling income, other receipts, 02-wheel tractor income and receipt book sales income had been declined by 99, 62, 54, 44 and 35 percent, respectively. Similarly, supply improvement and development expenditures, general expenditure, building, vehicle and equipment maintenance and repair expenditures and officer training expenditures had been declined by 100, 83, 69 and 56 percent respectively and Agrarian Center Administration and Development expenditures and depreciation of fixed assets had increased by 11563 and 47 percent respectively.

### 2.3 Ratio Analysis

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The income surplus ratio for the year under review increased by 44 per cent over the previous year, while the current ratio and Instant asset ratio increased by 0.16 percent and 0.15 percent, respectively.

### 3. Operational Review

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#### 3.1 Management Inefficiencies

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) An advance of Rs. 1,248,280 obtained by the District Assistant Commissioners on 03 occasions during the year under review was returned to the fund after 106 days without being used for the purpose.	Since the government had restricted gathering of officers and the attendance of officers as per the rules and regulations on the Covid-19 situation, the advances obtained by Kandy, Galle and Matara district Offices returned as the training programmes were not conducted by the said offices.	Action should be taken to settle the Adhoc- Sub-Imprest without delay.
(b) Even though an amount of Rs.1,075,200 had been received from 02 candidates in year 2018 and year 2019 to issue certificate that it is not a paddy land and to utilize a paddy land for another task, permits had not been issued to the candidates even by 24 March 2021.	An amount of Rs. 912,000 had been charged as service fees with the date of 12 February 2018 relevant to the file no. 7/11/9/CO/2650 ,and since recommendations in the file are older than 08 years and even though an amount of Rs. 163,200 had been charged as service fee relevant to file No.7/11/3/CO/1058 with the date of 16 February 2018 and recommendations in the file are older than 03 years and since granting permission to utilize paddy lands in Western Province to other activities as at the date of issuing permits, relevant permits have not been issued.	Permits should be issued without delay for works for which money has been obtained. Money should be repaid if not so.



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| (c) | 705 number of the 02 wheel tractors out of the tractors distributed on loan basis from year 2006 to 2012 and instalments had been paid were not handed over to the farmers till 31 December 2020.   | It is kindly informed that it is expected to get appropriate actions immediately.   | Assets should be handed over the farmers who paid loan instalments.                        |
| (d) | No any action had been taken regarding the stock deficiency amounting to Rs. 450,000 continued from previous years in the financial statements as at 31 December 2020 because the committee appointed regarding the said matter had not given a decision on the matter. | The committee appointed to look into the matter has recommended that an inquiry be held from the parties concerned. The disciplinary division will also be informed in this regard and appropriate actions will be taken accordingly in due course. | Action should be taken to expedite Financial Regulation investigations and recover losses. |

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

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##### 4.1 Annual Action Plan

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Even though conducting a Govijana Abhiman program is not a function of the Fund, an amount of Rs. 200,000,000 was allocated in the action plan of year 2020 to settle bills of Govijana Abhiman program relevant to year 2019, and Rs. 650,000 out of it was spent for the same.	This Govijana Abhiman Program which was identified and implemented in the year 2018 was conducted with the approval and consent of the Hon. Minister.  Due to the general election held in the year 2020 and the epidemic of the evil Covid-19 in the island, the relevant program could not be continued.  Rs. 20 million was allocated in the year 2020 to settle the advance paid for the expenses incurred for the “Govijana Abhiman-2018” in the year 2019.	Expenditure should be incurred only for the purposes of the Act.
(b) During the year under review and in previous years, no agricultural research activities were carried out which were the duties and functions of the Fund.	As we do not have the human resources for agricultural research work, it is expected to take action in this regard during the coming years.	Actions should be taken to get perform the duties and functions of the Act.

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| (c) | Even though an amount of Rs. 6 million had been allocated by the action plan of the year under review to obtain office equipment, Safety safes and software system for Govijana banks, it had not been done in the year 2020. | Due to the quantitative fall of duties caused by the Covid 19 pandemic prevailed in year 2020 and due to that officers have to perform their duties on rotation basis and due to the priority was given to urgent and essential work during that period, the relevant work had not been done. | Tasks planned in accordance with the action plan should be properly implemented. |
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#### 4.2 Budgetary Control

Audit Observation	Management Comment	Recommendation	
(a)	Even though estimation of finance had been made by budget for implementation of new agricultural policies of the fund during the year under review, improvement and development of supplies, development of physical resources of the Agrarian Services Centres and to referring the identified fallow paddy for cultivation, those tasks had not been performed.	Due to the instability in the country during the Covid-19 epidemic, many of the tasks estimated by the Priority and Development Fund for more urgent and essential duties could not be carried out as scheduled.	The budget document should be used as a management tool.
(b)	When comparing budget expenditure and actual expenditure, variances ranging from 77 per cent to 100 per cent were observed in 08 expenditure objects.	Due to the situation prevailed in the country during the Covid-19 epidemic, it was unable to carry out the budgeted activities of the Agrarian Development Fund for the year 2020; thus, and there were real variations between budgeted expenditure and actual expenditure.	The budget should be used as a management tool.