

## **Farmers' Trust Fund – 2020**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Farmers' Trust 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 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 Deed of Trust of the Farmers' Trust Fund dated 09 March 1994. My comments and observations which I consider should be reported in Parliament, appear in this report.

In my opinion, except for the effects 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 2020, and 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**

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My opinion is qualified 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 Responsibility 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 determines 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 Fund.

## 1.4 Auditor's Responsibility for the Audit of the Financial Statements

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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. 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 audit 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 audit 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 Audit Observations on Preparation of Financial Statements

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

<b>Non-compliance with reference to the Relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The legal form of entity, a description of the nature of operations and practical activities and a reference to the relevant Deed of Trust governing the entity's operations had not been disclosed in terms of paragraph 150 of Standard 01.	It is recorded to include in the financial statement 2021.	Action should be taken in terms of the Standard.

### 1.5.2 Accounting Deficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Interest income on investments amounting to Rs.7,794,456 for the preceding year relating to three fixed deposits in the State Mortgage and Investment Bank, had been shown in the financial statements as the income of the year under review.	The interest relating to fixed deposits amounting to Rs.300 million matured in March 2020 had been shown on cash basis and brought to account in the year 2020 by the State Mortgage and Investment Bank.	Transactions relating to the year under review should be identified and brought to account accurately.

- (b) The opening balance of the loan amount granted from the Fund to commence farmers banks had been Rs.190,313,579. However, in calculating the interest in the year under review, it had been calculated as Rs.181,200,000 thus, the interest on loan had been understated by Rs.91,125 .
- It is agreed and recorded for rectification.
- Transactions relating to the financial year should be identified accurately.

### 1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per corresponding Records	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
Income of the Govisetha Lottery receivable from the Treasury	4,710,479,333	4,688,745,587	21,733,746	Even though letters for confirmation of balances receivable from the Treasury had been forwarded to the Treasury, replies therefor had not been received so far and action will be taken by enquiring into the relevant difference in this year.	It should rectified by identifying reasons for the difference.

### 1.5.4 Lack of Documentary Evidence for Audit

In the establishment of the Farmers' Trust Fund by amalgamating the Revolving Fund and Agricultural Trust Fund in the year 2002, the following balances had been remitted and documentary evidence indicated against those balances had not been made available to Audit.

Item	Amount	Audit Evidence not made Available	Comments of the Management	Recommendation
	Rs.			
(a). Debtors Control Accounts – Agricultural Trust Fund	7,923,175	Debtors Age Analysis and Confirmation of Balances	These are the balances remitted in the establishment of the Trust Fund and the said balances are continuously represented in final	Action should be taken to settle by examining those balances.

accounts. That is, action is being taken to prepare a Cabinet Memorandum as per the approval of the Board of Directors to eliminate these balances such as Govisetha Fund, Share Account, Famers' Deposits etc., from final accounts.

(b)Debtors – Deputy Commissioner of Agrarian Services (Uva)	1,467,176	Confirmation of Balances	Do	Do
(c)Farmers' Deposits	697,644	Detailed Schedules and Confirmation of Balances	Do	It should be examined and confirmed.
(d) Share Account	591,965	Do	Do	Do
(e)Govisetha Fund	159,399,408	Do	Do	Balance should be confirmed

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observations	Comments of the Management	Recommendation
(a) Effective measures had not been taken to recover the debtors balance amounting to Rs.27,502,498, which had lapsed for a period ranging from 03 years to 20 years as at 31 December 2020 of short term loan balances granted to District Offices and Farmers' Associations.	A committee has been appointed to enquire into the recovery of loan balances remained unrecovered over a long period and future action will be taken subsequent to obtaining recommendations of the said committee.	Action should be taken to settle those balances.
(b) Farmers' Trust Fund had released an interest free loan amounting to Rs. 5.9 million in the year 2018, on the basis of payment within a period of one year to the Ran Geviliya Social Entrepreneur Public Company established with the intention of	A sum of Rs. 5,966,000 had been provided for the programme of issuing GAP certificates for rice, implemented in the Polonnaruwa District and it is accepted that the said amount	GAP certificates should be issued to female farmers while action be taken to recover the loan amount.

cultivating paddy lands of 3,000 acres in extent located in the Polonnaruwa District according to the Good Agriculture Practice (GAP) in the 2018/2019 Maha season and achieving economic benefits by making farmers aware on international standardization practices and adopting Good Agriculture Practice. According to the project time frame, the GAP Certificate had been expected to be obtained on behalf of female farmers by March 2019. However, the GAP Certificate had not been issued to female farmers even by the end of the year 2020 and even though 02 years had lapsed after terminating the period of the project to be completed, the loan amount granted therefor had not been settled.

has not been paid so far. The Deputy Director of Agriculture (Inter-provincial) who had monitored the project, has been informed to prepare a proper procedure pertaining to the recovery of the said amount.

- (c) A sum of Rs.860,000 was further recoverable out of the loan amounting to Rs.3,500,000 granted in the year 2003 to the private company, "Prime Herb Lanka. The Fund had been notified that this company had ceased business operations and that the person who obtained the loan had deceased. As such, no steps whatsoever had been taken up to now by the Fund relating to holding a reasonable examination on the ability of further payment of loans and to recover same or to proceed with legal action.
- Further action will be taken after obtaining legal advice.
- Action should be taken to recover loans.
- (d) In the establishment of the Farmers' Trust Fund in the year 2002 by amalgamating the Revolving Fund and the Agricultural Trust Fund, the debit and credit loan balances which remained in the said two Funds, were remitted to the Farmers' Trust Fund. Even though 10 retired officers had been
- A committee has been appointed to look into the recovery of loan balances remaining unrecovered throughout a long period and further decisions will be taken after recommendations are made by the said committee.
- Action should be taken to recover loans.

appointed in the year 2014 by paying allowances of Rs.1,490,000 for recovery of short term loan balance of Rs.44,255,850 of the Revolving Fund remitted to the Fund, short term loans further unrecovered amounted to Rs.39,967,891.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Paragraph 3(b) of Public Finance Circular No.01/2014 of 17 February 2014.	No Annual Action Plan had been prepared for the year under review.	It is agreed. Action will be taken to prepare the Annual Action Plan from the year 2021.	An Annual Action Plan should be prepared in terms of the Circular.
(b) Financial Regulation 877(2)(a) included by paragraph 15.1 of Public Finance Circular No.01/2020 of 28 August 2020	Approval should have been obtained within one year after issuing the circular for statutory and trust funds for which an Act is not available. However, it had been decided by the Cabinet Decision No.CP/16/1866/728/041 of 19 October 2016 to submit to the Cabinet the draft bill once again which was prepared and submitted, together with the opinion of the Minister of Finance. Nevertheless, it had not been re-submitted to the Cabinet to consider matters even up to the date of audit.	Action relating to passing the Act will be finalized before the end of this year.	Action should be taken in terms of the Circular.

## 2. Financial Review

### 2.1 Financial Results

The operations for the year under review resulted in a surplus of Rs.40,157,955 as compared with the corresponding surplus of Rs.18,195,080 for the preceding year, thus observing an improvement of Rs.21,962,875 in the financial result. The decrease in the development expenditure in the year under review had mainly attributed to this improvement.

### 3. Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) A sum of Rs.916,322,319 had been allocated for the year under review for 44 capital projects such as exhibitions, seedling production and manufacture of apiaries. However, 14 projects of them had not been implemented.	It is accepted that the projects targeted in the year 2020 could not be fully completed. Specifically, the expected target could not be achieved due to the Corona pandemic situation which prevailed in the year 2020.	Action should be taken according to plans.
(b) The income from the Govisetha Lottery had not been received to the Fund from the year 2008 up to the year under review. As such, the expectation of implementing the main objective of establishing the Fund, could not be met.	The Secretary to the Ministry of Finance was requested on 09 December 2020 to provide a sum of Rs.369.8 million for programmes of the Farmers' Trust Fund proposed to be implemented in the year 2021. Accordingly, a sum of Rs.100 million was provided on 08 February 2021.	The income from the Govisetha Lottery should be utilized for the objective of the Fund.

#### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
In terms of Section 14 of the Deed of Trust of 09 March 1994 by which the Farmers' Trust Fund was established, a staff could have been recruited for the Trust Fund. However, since action was not taken accordingly, management of financial and administrative affairs of the Fund was at an unsatisfactory level due to weaknesses such as the low level of progress in recovery of loans, unsettled advances, writing off unrecoverable loans and failure in supervision and follow up action of projects implemented by the Fund.	Action will be taken to approve the cadre after passing of the Act.	Financial and administrative affairs should be properly managed.