

Hadabima Authority of Sri Lanka (Haritha Danaw Development Central Authority of Sri Lanka) - 2012

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Hadabima Authority of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

- (a) A stock of 46,555 polysacks valued at Rs.547,868 used for production activities of the Pallekele Farm had been omitted in the computation of the closing stock and as such the overall profit of the farm had been understated by that amount.
- (b) Fourteen motor vehicles, 100 units of furniture and equipment and 72 units of office equipment belonging to the Authority had been shown in the financial statements at a value of Rs.1 after depreciation. As those assets had not been revalued and shown in the financial statements, depreciation had not been brought to account on the revalued amount. As such the deficit had also been understated.

1:2:2 Unreconciled Control Accounts

The following non - reconciliations were observed.

Particulars	As at 31 December 2012		Difference
	Balance according to Financial Statements	Balance according to Register	
	Rs.	Rs.	Rs.
Seedlings Nursery – Kotmale	504,594	501,310	3,284
Stock of Seeds – Kotmale	2,690	520	2,170

Stock of Animals – Kotmale	196,820	201,750	4,930
Seedlings Nursery – Pallekele	59,519	673,865	614,346
Stock of Animals – Pallekele	1,579,990	1,322,675	257,315

1:2:3 Accounts Receivable and Payable

Action had not been taken for the settlement of the debtors balances amounting to Rs.2,172,834 remaining without being recovered over periods exceeding 03 years.

1:2:4 Lack of Evidence for Audit

The following balances of accounts could not be confirmed in audit due to the non-submission of evidence indicated against each item.

Particulars	Value	Evidence not made available
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	Rs.	
(a) Income Receivable	15,463	Schedule
(b) Land Reform Commission	2,094,281	Confirmation of Balances
(c) Fixed Assets	21,582,136	Board of Survey Reports

1:2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(a) Financial Regulation 103 and 104	Even though a motor vehicle of the Authority had met with 05 accidents in the year under

review, investigations thereon had not been carried out. Three of those instances had not been reported to the Police.

- (b) Financial Regulation 396 (d) Action had not been taken in respect of 137 lapsed cheques amounting to Rs. 169,546 issued from the 02 Current Accounts.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2012 had resulted in a deficit of Rs.32,601,898 as against the surplus of Rs.6,419,554 for the preceding year, thus indicating a deterioration of Rs.39,021,452 in the financial results as compared with the preceding year. This deterioration had resulted from the increase of recurrent expenditure by a sum of Rs.13,301,313, the increase of capital expenditure by a sum of Rs.11,988,752, the increase of expenditure on special projects by a sum of Rs.3,212,459, the non-receipt the sum of Rs.3,022,763 receivable for the Poultry Control Programme and accounting for project expenditure of the year 2011 amounting to Rs.10,018,309 as expenditure of the year under review.

3. Operating Review

3:1 Performance

The following observations are made.

- (a) The Maha Illuppallama Farm started in the year 2010 without carrying out a proper feasibility study had been closed down with effect from May 2012 as it had failed. Even though expenditure amounting to Rs.1,010,762 and Rs.8,598,003 had been incurred on the farm in the year under review and the preceding years respectively, the income earned during that period amounted to Rs.248,760.

- (b) The Ministry of Economic Development had spent a sum of Rs.3,597,117 in the year under review for the Pallekele Farm for the improvement of Poultry Control under the Semi-Domestic Poultry Control Project. Nevertheless, in the computation of the operating results of the farm for the year under review had resulted in a loss of Rs.1,139,805 as against the profit of Rs.161,390 for the preceding year.
- (c) The Kotmale Farm had incurred a loss of Rs.367,973 for the year under review while the losses incurred in the two preceding years had been Rs.643,710 and Rs.8,564 respectively.
- (d) Even though a sum of Rs.252,021 had been spent on the maintenance of chammaries in the year under review the income earned from that amounted to Rs. 18,520 only.
- (e) A sum of Rs.5,000,000 of the Authority had been invested in 07 day call deposits at 7 per cent annual interest in October 2012 and out of that, a sum of Rs.4,000,000 remained at the time of audit in May 2013. As such the Authority had been deprived of the interest income that could have been earned by investing the money in long term fixed deposits.
- (f) The Penetiyana Carbonic Fertilizer Project commenced in the year 2010 with the objective of popularizing the production of carbonic fertilizer had been closed down in the year 2012. A sum of Rs.1,501,963 had been spent on the Project during the past two years and the income received during that period amounted to Rs.56,710.

3:2 Management Inefficiencies

A person who had not fulfilled the qualifications stated in the Scheme of Recruitment had been appointment as the Administrative Officer with effect from 03 April 2012 and he had been paid a sum of Rs.235,630 as salaries and allowances up to December 2012.

3:3 Operating Inefficiencies

The balance stock of 10 kilogramme polysacks valued at Rs.344,832 as at 31 October 2011 amounted to 28,736 and according to the annual requests that stock was adequate for the 24 ensuing years. Despite that, a further stock of 12,500 bags had been purchased on 22 November 2011 at a cost of Rs.125,000.

3:4 Transactions of Contentious Nature

The Authority had constructed buildings on lands not owned by it during the year under review and the preceding years at a cost of Rs.1,461,564 and Rs.7,313,404 respectively.

3:5 Underutilization of Funds

The provisions of Rs.2,196,500 made in the annual revised budget for 07 Objects of the year under review had not been utilized.

3:6 Idle and Underutilized Assets

The following observations are made.

- (a) Used equipment of 12 categories of the Pallekele Infants School, its Farm and the Kotmale Farm valued at Rs.127,794 and equipment of 09 categories, the value of which had not been assessed, remained idling.
- (b) The stock of assets of 100 categories valued at Rs.1,901,290 remaining non-moving for about 03 years had been included in the stock of agricultural equipment.
- (c) The allocation made for the employees gratuity as at the end of the year under review amounted to Rs.12,375,413 and action had not been taken to effectively invest that money.

3:7 Identified Losses

The Semi-Domestic Chics Production Project maintained in the Pallekele Farm had incurred production and maintenance expenditure exceeding the selling price and as such the Authority had incurred a loss of Rs.42,705 in the year 2012 from the sale of 784 chics. In addition the sale of 3,726 chics older than one month at the selling price of one month old chics and as such, the Authority had lost a probable profit of Rs.312,942.

3:8 Staff Administration

	Approved Staff	Actual Staff	Number of Vacancies
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Senior Level	01	01	--
Tertiary Level	15	12	03
Secondary Level	43	41	02
Primary Level	28	26	02
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	87	80	07
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Even though there were 07 vacancies in the approved cadre of the Authority, action had not been taken to fill those vacancies.

3:9 Motor Vehicles Utilization

A Director who had not been authorized to use a motor vehicle for duty had been provided with a motor vehicle of the Authority from June 2010. Even though the Chairman of the Authority had, by his letter No. HA/C/3/32-5219 dated 30 August 2011, informed the Director to return the motor vehicle to the Authority, it had not been so done even by May 2013.

4. Accountability and Good Governance

4:1 Action Plan

Even though provision amounting to Rs.134,145,618 had been made for the achievement of the expected objectives of Action Plan, a sum of Rs.86,448,513 or 64 per cent of that only had been utilized.

4:2 Internal Audit

An Internal Audit had not been established for carrying out in internal audit work of the Authority in terms of Financial Regulation 133.

4:3 Budgetary Control

The following observations have made.

- (a) All Public Corporations should prepare a budget three months prior to the commencement of the relevant financial year in terms of Section 8 of the Finance Act, No. 38 of 1971 and obtain the approval of the Board of Directors for such budget. But the Authority had not so done in respect of the year under review and the revised estimates only had been furnished for audit.
- (b) Savings totalling Rs.32,465,853 were observed in relation to 11 objects in the revised estimate and that as compared with the revised provisions ranged between 15 per cent to 96 per cent. As such the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budgetary Control
- (b) Assets Control
- (c) Accounting
- (d) Stores Control
- (e) Farm Management