

Hector Kobbekaduwa Agricultural Research and Training Institute – 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 Hector Kobbekaduwa Agricultural Research and Training Institute as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The following observations are made.

- (a) Depreciation in respect of the motor vehicles valued at Rs.2,701,868 eliminated in the years 2008 and 2009 had been computed for the year under review and as such depreciation amounting to Rs.540,374 had been overstated in the financial statements.
- (b) The value of 06 motor vehicles costing Rs.3,063,404 and 02 motor cycles costing Rs.267,000 which had been fully depreciated, had not been revalued and brought to account.
- (c) A deposit of Rs.2,000,000 had been made in a State Bank in the year 1993 without the approval of the Treasury for the purpose of granting housing loans to the employees. That deposit and the interest thereon had not been shown in the financial statements of the year under review.

- (d) Income receivable for the hostels and the seminar hall for the year under review amounting to Rs.305,637 had not been brought to account.
- (e) The capital grants amounting to Rs.40,861,902 shown under the capital and reserves in the financial statements had not been amortized.
- (f) The value of the motor vehicle taken over by the Institute in July 2012 amounting to Rs.1,118,919 had not been brought to account.

1:2:2 Unreconciled Control Accounts

A difference of Rs.8,467,482 was observed between the balances shown in the financial statements and the value shown in the schedules and the Registers of Fixed Assets presented in relation to the following items of account.

Item of Account	Value according to the Financial Statements	Value according to the Schedules	Value according to the Registers of Fixed Assets	Difference
	Rs.	Rs.	Rs.	Rs.
Consumable Goods	1,903,599	1,778,999	--	124,600
Sales Centres	430,908	442,944	--	12,036
Computer Accessories	3,660,047	--	3,002,757	657,290
Motor Vehicles	26,648,157	--	20,472,629	6,175,528
Furniture and Equipment	15,820,259	--	14,322,231	1,498,028
				8,467,482
				8,467,482

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken for the settlement of the unpaid expenses amounting to Rs.75,191 existing under the creditors from the year 2009.
- (b) The advances for purchases granted to officers from the year 2010 to June of the year under review amounting to Rs.74,634 and the travelling advances amounting to Rs.84,250 granted to 07 officers in May of the year under review had not been settled even by the end of the year.

1:2:4 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished for the examination of the items.

Item of Account	Value	Evidence not made available
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	Rs.	
Time Deposits	255,285	i. Confirmation of Balances ii. Schedule of Time Deposits
Closing Stock	4,253,145	i. Stock Books ii. Board of Survey Reports
Deposits with the	406,250	i. Reason for making the Deposit

Ceylon Electricity Board		ii. Document relating to the Deposit
Buildings	24,202,599	i. Board of Survey Reports ii. Register of Fixed Assets
Furniture and Equipment	15,820,259	} Board of Survey Reports
Computers and Accessories	3,660,047	
Motor Vehicles	26,648,157	
Library Books	2,308,797	

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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(a) Hector Kobbekaduwa Agricultural Research and Training Institute Act, No. 5 of 1972.	Even though the Board of Directors should comprise 21 members representing different subject areas, the Board of Directors consisted of 19 members as at the end of the year under review. The Board of Directors did not include members representing the Ministry of Lands and the Department of Rural Development Sectors.
(b) Paragraph 3.13 of the Public Administration Circular No. 41/90 of 10 October 1990.	Even though a certificate from a qualified Mechanical Engineer in a Department, Corporation or a Board in the Public Sector should be obtained for confirmation of the

reasonableness of the quotations submitted for carrying out the internal repairs of motor vehicles, it had not been so done in connection with the expenditure amounting to Rs.636,343 incurred in carrying out repairs to 08 motor vehicles of the Institute.

(c) Government Procurement Guidelines Sections 4.3.1, 5.4.4(i), 8.9.1 and 8.12.2

The Circuit Bungalow at Pelvehera had been repaired at a cost of Rs.1,362,354 and the Institute had not obtained bids and performance bonds in that connecting while an agreement had not been entered into between the Institute and the contractor. Even though the mobilization advance should not exceed 20 per cent of the estimated amount in terms of the Procurement Guidelines, a mobilization advance amounting to 51 per cent of the estimated amount had been paid to the contractor.

An estimate prepared by an authorized officer was not available for the work. The measurement reports certified by such an officer had not been obtained for making payments.

1:2:6 Transactions not supported by Adequate Authority

The Accountant had decided to write off the sum of Rs.21,618,551 spent upto the year 2011 for implementing the training programmes, scholarships and workshops arranged for the improvement of the knowledge and skills of the officers of the Institute in 05 ensuing years from the year under review. Nevertheless, the formal approval had not

been obtained for the sum of Rs.4,323,710 written off against the profit in the year under review.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.17,157,210 as compared with the corresponding deficit of Rs.13,009,737 for the preceding year. The deterioration of the financial results for the year under review by a sum of Rs.4,147,473 as compared with the preceding year had been due to the write off of the employee development expenditure amounting to Rs.4,323,710 against the profit for the year under review.

2:2 Analytical Financial Review

Different stages of the financial results of the year under review and the preceding year are given in the following table.

	For the year ended 31 December		Variance	
	2012	2011	Favourable	Adverse
	Rs.	Rs.	Rs.	Rs.
Income	146,524,455	131,248,013	15,276,442	--
Expenditure (excluding Finance Expenses)	163,641,109	144,234,499	--	19,406,610
Net Operating Profit before Payment of Interest	17,116,655	12,986,487	4,130,168	--
Current Assets	27,682,892	31,458,276	--	3,775,384
Current Liabilities	17,729,112	15,563,590	--	2,165,522

3. Operating Review

3:1 Performance

The Institute had started 38 projects in the year under review and together with 07 projects of the preceding year, 45 projects had been implemented in the year. Out of that 30 projects had been completed in the year 2012 and 02 projects of the year 2011 and 13 projects of the year 2012 had not been completed.

3:2 Management Inefficiencies

The following observations are made.

- (a) In the registration of suppliers as at the beginning of the year, a garage at Matara had been registered as a supplier without checking the qualifications. An additional cost had to be incurred in sending the motor vehicles to that garage and getting them back.
- (b) The Institute had not taken action for the recovery of the value of 187 library books not returned by 10 officers who are no more in service in the Institute at present. The number of missing books had been 163.
- (c) The Reports of Boards of Survey for the year 2012 had not been furnished to audit even by 10 May 2013. Appropriate action had not been taken on the 162 shortages and excesses included in the Board of Survey Reports for the year 2011.

- (d) As the legal action against 06 scholarship recipients who had followed postgraduate courses in foreign universities and breached the bonds had been taken after delays ranging from 32 to 63 months the bond value recoverable as at 31 December 2012 amounted to Rs.11,900,868.

- (e) Prior to the approval of the Scheme of Recruitment of the Institute, officers had been appointed on acting basis for periods exceeding two years to the major posts of Registrar, Assistant Registrar (Programmes) and Editor of the Institute. Those posts had not been filled even after the approval of the Scheme of Recruitment on 06 February 2012.

- (f) The Institute had granted leave with pay for 02 years and paid a sum of Rs.1,874,757 as course fees for two officers in the year 2006 for following local postgraduate courses and those officers had not completed the relevant courses within the specified periods. Even though the Institute had extended the course period up to 31 December 2012 the officers had failed to complete the courses during that period as well.

3:3 Operating Inefficiencies

The unspent sum of Rs.9,286,136 remaining after the conclusion of 25 Research Projects and Training Programmes financed by external institutions had been shown continuously under the creditors in the financial statements without taking action for the settlement.

3:4 Uneconomic Transactions

Even though a Biogas Project had been implemented at a cost of Rs.636,690 without carrying out a feasibility study for reducing the cost of gas for the restaurant, the project had failed completely as it could not generate the expected quantity of biogas.

3:5 Identified Losses

A motor vehicle of the Institute released to the line Ministry had met with an accident in the year under review and had been repaired at a cost of Rs.230,700. Action on this loss in terms of Financial Regulations 104-109 had not been taken.

3:6 Assets without Legal Ownership

Even though a Double Cab Motor Vehicle of the World Food Programme Project had been given to the Institute on 25 July 2011 action had not been taken for the transfer of the legal ownership of the motor vehicle to the Institute.

3:7 Resources of the Institute given to other State Institutions

The following matters were observed.

- (a) Two motor vehicles of the Institute handed over to the line Ministry on 26 April 2012 had not been recovered even by 31 December 2012.
- (b) A Driver of the Institute had been attached to the line Ministry with effect from 27 August 2011 and the Institute had paid a sum of Rs.247,580 as the salary for the year under review.

3:8 Staff Administration

The following observations are made.

- (a) Despite the availability of external candidates with the qualifications required for the post of Administrative Officer of the Institute in accordance with the Scheme of Recruitment, an internal candidate of the Institute who had not fulfilled the minimum qualifications had been appointed to that post.
- (b) The salary scales of the Director and the Accountant of the Institute should have been revised in accordance with the Scheme of Recruitment approved by the

Department of Management Services on 06 February 2012. As it had not been so done, overpayments of salaries amounting to Rs.174,520 comprising Rs.132,310 and Rs.42,210 had been obtained by the Director and the Accountant respectively.

4. Accountability and Good Governance

4:1 Budgetary Control

The variance between the data of the budget for the year under review and the actual data ranged between 22 per cent to 111 per cent, thus indicating that 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 Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Repair and Maintenance of Motor Vehicles
- (b) Construction Works
- (c) Staff Administration
- (d) Payment of Advances
- (e) Inventory Control