

Hector Kobbekaduwa Agrarian Research & Training Institute - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Hector Kobbekaduwa Agrarian Research and Training Institute for the year ended 31 December 2019 comprising the statement of financial position as 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(1) 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, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Hector Kobbekaduwa Agrarian Research and Training Institute 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 Qualified Opinion

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 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 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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.
- Obtained 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 Institute's internal control.
- Evaluated 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 Institute'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.
- Evaluated 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.

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 it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The provisions had not been made in the financial statements for the lease rent payable for the period from 12 December 2011 to 12 December 2019 amounted to Rs. 1,000,000 for the Pelwehera Circuit Bungalow which was taken over from the Divisional Secretary Dambulla on long-term lease basis.</p>	<p>Actions will be taken to reveal by a note in the financial statements in future.</p>	<p>The provisions should be made in financial statements for payables.</p>
<p>(b) Although the amount received from the disposal of material was Rs.5,900, sales loss of material disposals amounted to Rs.308,502 had been shown in the cash flow statement as a cash outflow under financial activities.</p>	<p>This is not the sales loss of fixed asset disposal and it is the consumer goods sales loss. This loss of Rs.308,502 has been shown as cash outflow under the financial activities because this transaction has also been adjusted under the</p>	<p>Only the net cash inflow from the disposed assets should be recorded in the cash flow statement.</p>

operational activity. The information of the cash flow statement as pointed out will be indicated in future.

(c) Although the sum of Rs.1,962,545 incurred by the Institute for the maintenance of Pelwehera Circuit Bungalow had been taken into accounts as receivable from the Dambulla Divisional Secretary, that money had not been received by the Institute. However, that amount had been stated in the cash flow statement as a cash inflow under investment activities.

Although no money had been received for the Pelwehera Circuit Bungalow, that amount had been accounted for as a receivable. Since recovery of this amount is the value after deducting the depreciation of asset of Pelwehera Circuit Bungalow, that value has been shown under the investment activities in the cash flow statement.

Only the actual receipts should be recorded in the cash flow statement.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>There were 05 balances such as Library Books amounted to Rs.484,529 receivable for more than 05 years, Receipts for Magazines, receivables for the goods received from the Institute and overpaid salaries and allowances included in the debtor balance and that balance was due from the retired officers who had served in the Institute.</p>	<p>The balance receivable for more than 05 years from the retired officers of the Institute is Rs.484,529 . Arrangements have been made to tke legal actions to recover these balances.</p>	<p>Actions should be taken to periodically recover the balances receivable.</p>

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation	
(a)	F.R 756	A Board of Survey had not been conducted for the library books for the year 2019 .	According to the National Library and Documentation Services Board Consultative Circular No. 2004/௨௪/01 the misplaced books should be counted once in every 2 years. However, an annual library book survey will be carried out in accordance with F.R 756 in future. However, obtaining the information as shelves that hold the books in the library combining with finance division and the library division in the year 2019, it was computerized so that it could be easily identified separately.	Annual Board of Survey should be conducted for Library books in accordance with Financial Regulations.
(b)	F.R 757(2)(a)	If there is any difference as per the survey report, they should be clarified from the responsible officials. If there are differences, although the actions should be taken with regard to them, arrangements had not been so made in respect of the excesses and shortages in the years 2011, 2017 and 2018.	Although the Institute had conducted a library book survey, arrangements had not been made regarding the excesses and shortages. However, actions are being taken to identify those excesses and shortages and take necessary actions from the year 2019. Steps are being taken to solve these issues after conducting the Library Book Survey 2020.	Actions should be taken in respect of excesses and shortages in terms of Financial Regulations.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, operating result of the Institute for the year under review was a deficit of Rs.2,065,351 and as the correspondence deficit was Rs.2,301,132 when compared with the preceding year thus observed a decrease in loss by Rs.235,781 in the financial result for the year under review. The increase of Government Grant by Rs. 17,270,000, decrease in capital grants received for research and training by Rs.1,439,449, increase of salaries and wages expenditure by Rs. 13,219,583 and increase of other expenses by Rs.5,189,738 had mainly attributed for this financial results.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Due to not returning of 07 officers who had gone abroad after obtaining scholarships, successful actions had not been taken to recover the bond value due as at 31 December 2019 amounted to Rs.13,486,273 .	There was a debt balance of Rs.15,387,897 at the beginning of the year 2019 in foreign scholarship holders and a sum of Rs.1,901,629 have been recovered during the year 2019. Accordingly, the outstanding balance of foreign scholarship holders receivable by 31 December 2019 is Rs. 13,486,273. Proper steps are being taken to recover this balance.	Actions should be taken to recover the loan balances as per the agreements.
(b) Even though the security officers of the Minister of Agriculture had stayed in 05 rooms of the hostel owned by the Institute from May 2015 to July 2018, the relevant rent amounting to Rs.8,895,470 had not been recovered.	The fees due from the officers of the security forces of the Minister of Agriculture for the stay from 2015 to 2018 in 05 rooms in the hostel have not yet been accounted for. Actions will be taken to submit all the information to the Board and take action to record the value of these receivables in the accounts as per the relevant instructions in future.	Necessary actions should be taken to recover the rent charges.

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| <p>(c) The bio-gas unit installed during the period 2012-2015 at the Head Office at a cost of Rs. 1,031,020 had been in inactive manner since 2016 and as a result, it had not been repaired for a long time, being its devices inactive and had become unusable.</p> | <p>A Committee consisting of the Officers of the Institute had reviewed on the current situation and recommended that it was not economically profitable to maintain this. updating systems to existing new technologies were also not at an economically profitable condition. The system currently has a lifespan of 8 years.</p> | <p>If maintaining of this Bio-gas unit is not economically effective, steps should be taken to dispose this.</p> |
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4. Accountability and Good Governance

4.1 Annual Action Plan

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Out of the provision of Rs.2.73 million allocated for publications by the Action Plan 2019 to transmit findings and recommendations of research projects to policy makers and to other relevant parties by identifying agricultural development needs, only Rs.0.775 million had been utilized during the year 2019 and any of the work had not been done using the provisions made available for media activities and exhibitions.</p>	<p>Even though Rs. 0.75 million has been allocated for the year 2019 under the Head of conferences, workshops and public lectures, the amount spent as at 31 December 2019 was Rs. 0.253 million. The main reason for this was that the planned activities could not be carried out due to the fact that the programmes that mobilize people such as seminars and workshops did not take place for several months with the Easter attack occurred unexpectedly.</p>	<p>Tasks should be performed properly in accordance with the Action Plan.</p>
<p>(b) It was observed that the identified programmes to provide research findings to the required stakeholders and new knowledge generated by conducting research programmes, which is one of the primary functions of the Institute were not functioned annually or</p>	<p>The Research Books Launching Seminars were not planned for the period from 2017 to 2019. Arrangements will be made to conduct workshops and seminars by giving necessary instructions for the future</p>	<p>Tasks should be performed properly in accordance with the Action Plan.</p>

properly once in a certain period and the provisions for the launching of research reports in the years 2017, 2018 and 2019 had not been made available through the Action Plans.

activities related to this. Steps will be taken to launch these reports soon.

4.2 Audit Committee

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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<p>Although the Audit Committee Meetings should be held at least once in every 03 months in accordance with Public Enterprises Circular No. PED 55 dated 14 December 2010, the Institute had held only three meetings per each year in 2017, 2018 and 2019.</p>	<p>Three Audit Committee Meetings were held in the year 2019 and the final committee meeting was scheduled to be held in the first week of December of that year and the Board of Directors was abolished when the new government came to power after the November Presidential Election 2019 and as a result, it was impossible to appoint members to the Board of Directors for the Audit Committee Meeting. Since there was no permanent Registrar in the Institute for the years 2017 and 2018 it was observed that the Directors at that time had failed to hold audit committee meetings.</p>	<p>Audit Committees should be conducted in accordance with the Circulars.</p>