

1. Financial Statements

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 2024 comprising the statement of financial position as at 31 December 2024, the statement of financial performance for the year then ended, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions of the National Audit Act No. 19 of 2018 and the Finance Act No.38 of 1971 read in conjunction with the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be reported 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 Institute as at 31 December 2024, 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 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 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 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 of the Institute.

1.4. Audit Scope

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 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 institute'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 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. However, future events or conditions may cause 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 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 the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

	Non-compliance with reference to the related standard	Management Comment	Recommendation
(a)	As per the paragraph 71 of Sri Lanka Public Sector Accounting Standards No.01, the consolidated loan amounting to Rs. 21,945,953 had not been revealed separating as current and non-current assets.	Accepted. The actions will be taken to classify accurately in future.	The revelations should be made separating as current and non-current assets as per the accounting standard.
(b)	The revelations on the employee benefits had not been made in the financial statements as per the paragraphs 141 (b), (c), (d) and (n) of the Sri Lanka Public Sector Accounting Standards No.19.	As pointed out by the audit, the revelations will be made in accordance with this standard in future.	The revelations on the employee benefits should be made as per the accounting standard.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The hostel facilities had been given by the institution to varied persons without charging any fees during the period May 2015 - July 2018, and an amount of Rs. 8,895,470; identified as receivable to the institution in the year 2019 by the committee appointed to identify the income and recommended to collect, had been accounted as income and the actions had not been taken to recover it.	A paper has been submitted to the Audit and Management Committee for recommendation to account the sum of Rs. 8,895,470 as an income. According to the recommendation of the Audit and Management Committee, a disclosure has been made under Note 1.8(iii) of the financial statements	The action should be taken to account and recover the identified income.
(b)	As the accrued expenses amounting to Rs. 695,429 had not been accounted, the expenses and accrued expenses of the year under review had been understated by that amount.	Accepted.	The expenses related to the year should be identified and accounted.

(c) Although the Institute had used 103 items of laptops, tablets and accessories with the revalued amount of Rs. 4,256,390 and received from the external institutions for the research projects done by the Institute, the steps had not been taken to account those.	This information has been revealed by a note to the financial statements and the relevant information has been presented to the audit together with the revaluation report separately as values and items.	The values of assets received and used by the institution should be accounted.
(d) The assets worth Rs. 1,804,500 purchased during the year under review had been included in the financial statements of the year 2023 and a sum of Rs. 302,350 had been accounted as depreciations. As the said error had not been rectified in the year under review, the depreciation allocations had been overstated by that amount and the accumulated fund had been understated by that amount in the financial statements.	Accepted. As the depreciations had been calculated based on the fixed asset depreciation policy in the year 2023, the actions were not taken to rectify it this year, and the fixed asset depreciation policy was revised this year.	The assets and depreciation value should be accounted correctly.
(e) As an expenditure of Rs. 327,110 relating to the year 2025 was accounted as accrued expenditure in the year under review, the surplus for the year under review had been understated by that value and the expenses payable had been overstated by that value.	Accepted	Only expenses related to the year should be accounted.
(f) Although a large number of publications worth Rs. 2,971,456 had been identified to have been damaged or discolored as unable to be reused, the relevant books had been shown under current assets without removing from the stock or making required allocations for that.	The proceedings have already been made to take steps related thereto	The books not usable should be removed from the stock.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

The balance receivable as at 31 December of the year under review was Rs.43,189,356 of which the foreign scholarship debtor balance was Rs.17,915,464. A sum of Rs.12,643,448 from this foreign scholarship debtor balance was a balance existing since before the year 2002, and the actions had

Management Comment

The institution is proceeding on this matter, and the number of scholarship recipients who did not pay the bonds has been reduced to 06 at present because of the measures taken by the institution during the last 05 years. Although the current

Recommendation

The actions should be taken to recover the money due from the relevant party.

not been taken so far to recover the said amount. Further, the actions had not been taken to recover the amount of Rs.5,272,016 due from a respective officer; who left the service for a post of lecturer in a University without informing the institution in the year 2021. addresses are not available, the necessary steps are being taken by the institution to contact them regarding the presently remaining 03 unpaid scholarship bonds.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
The payable balance of Rs. 2,158,880 has been existing for more than 05 years and the necessary actions had not been taken to settle the said balances.	The outstanding creditor balance exceeding 05 years is Rs. 2,324,342. That amount has consisted of the deposits to be repaid, canteen deposits, amounts to be paid by the employees who have left the service, retained deposits, creditors, gratuity to be paid, Dambulla Divisional Secretariat, creditor balance related to the projects etc.	Those who should settle the amount should be identified and the actions should be taken to settle or take the amounts to the income.

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

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
(a) Section 3.4 (ix) in Chapter 3 of the Operational Manual of the Public Enterprises Circular No.01/2021 dated 16 November 2021	Even if an acting appointment should be limited to a period not exceeding one year, a sum of Rs. 2,063,343 had been paid to 06 officers serving in the institution as salaries and allowances for engaging in acting duties since many years.	The relevant approval has been obtained from the Board of Governors until suitable persons are recruited for those positions.	The proceedings should be done to make recruitments in accordance with circulars or the posts should be suppressed conducting proper reviews.
(b) Section 7 (b) of the Circular No. M.F 01/2015/01 dated 15 May 2015 issued by the Ministry of Finance and the Secretary to the Treasury.	An advance of Rs. 112,678 equivalent to US\$ 375 had been paid to the Senior Research Officer of the Institute for incidental allowances for a period of 15 days for her participation in a training program held in China from 01 to 14 November 2024. A sum of 2,100 Yuan	As per the approval of the Board of Governors, it has been agreed to pay in instalments up to 03 years. However, such concessions will not be granted for	The steps should be taken to pay the relevant allowances as per the circular.

equivalent to Rs. 84,000 had any reason been paid by the sponsor henceforward. institution of China in terms of daily expenses for her participation in this program. Accordingly, although the amount of Rs. 84,000 to which she was not entitled should be paid to the Institute within one month upon her arrival in the island as per the circular provisions, the approval had been granted at the 403rd governance meeting to pay the said amount in 36 instalments in contrast to this circular.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
Although the approval should be obtained from the Department of State Accounts of the Treasury to open an official bank account in accordance with Section 381(1) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, the approval for 04 current bank accounts being maintained by the institution had not been obtained.	It is observed in the annual examination of accounts that these 04 current accounts have existed from the initiation of the institution. The documents on the approval obtained from the General Treasury to open these 04 accounts have not been able to be found. The steps will be taken to obtain instructions from the General Treasury in this regard in the future.	The actions should be taken to close the unnecessary bank accounts subsequent to re-considering the requirements or to obtain the relevant approval in accordance with financial regulations.

2. Financial Review

2.1 Financial Results

The institute's operating result for the year under review was a surplus of Rs. 6,199,158 and correspondingly the previous year's surplus was Rs. 16,128,359. Accordingly, a decline of Rs. 9,929,201 was observed in the financial result. The increases of the employee remuneration cost, vehicle repairing expenses and employee development expenses had mainly caused this decline.

2.2 Trend Analysis of major Income and Expenditure items

In comparison of the year under review with the previous year, government grants had increased by 18.7 percent and the capital grants for research and training had increased by 10.7 percent, and the

other income had decreased by 19.6 percent and the funds received from other parties for research and training activities had decreased by 43.2 percent. Similarly, research and training expenses had decreased by 4 percent and research and training expenses for other parties had decreased by 43.2 percent, and the employee remuneration expenses had increased by 21.6 percent and other expenses had increased by 26.3 percent.

2.3 Ratio Analysis

Compared to the previous year, the income surplus ratio of the year under review had decreased by 3.5 percent as well as the current ratio had increased by 0.72 and the quick asset ratio had increased by 0.71 percent.

3. Operational Review

3.1 Human Resource Management

	Audit Issue	Management Comment	Recommendation
(a)	Even if a staff of 228 persons had been approved on 27 May 2019 by the Department of Management Services for the institution, the approval for a recruitment procedure for the staff related to 13 posts had not been obtained.	A new staff estimate has been sent to the Department of Management Services, and the necessary arrangements have been made to prepare a new recruitment procedure upon the receipt of the said staff estimate.	The approval for a recruitment procedure for the approved posts should be obtained immediately.
(b)	Although the Efficiency Bar Examinations should be conducted annually for approved posts as per the approved recruitment procedure of the institution, the Efficiency Bar Examinations had not been conducted by the institution after the year 2019.	The actions will be taken urgently in the future to conduct the annual efficiency bar examinations as per the requirement.	The Efficiency Bar Examinations should be conducted as per the recruitment procedure.

3.2 Vehicle System Management

	Audit Issue	Management Comment	Recommendation
	The lorry worth Rs. 600,000 received as a donation from the World Food Organization in 1984 had been accounted and had not been taken over by the institution as of 31 December of the year under review.	The requests have been made to the World Food Organization to take over the 40-3933. The said institute has referred the request to Sri Lanka Customs.	The vehicle should be taken over.

4. Accountability and Good Governance

4.1 Annual Action Plan

	Audit Issue	Management Comment	Recommendation
(a)	Although 13 research had been planned to be conducted with an estimated cost of Rs. 13,130,000 according to the	Out of the 16 research projects initiated from January 2023 as indicated in the audit, 04	The actions should be taken to complete the

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| <p>action plan for the year under review, and 11 research at the expense of Rs. 11,610,000 had been expected to be accomplished in the year under review and 02 research had been expected to be accomplished in the year 2025, only one research had been accomplished in the year. Accordingly, the progress of accomplishing the research projects had been a low value as 9 percent. Further, 06 research projects initiated in the year 2023 had not been completed even by 30 June 2025. The institution had incurred an expense of Rs. 7,460,000 for that purpose.</p> | <p>projects have been completed to date.</p> | <p>research within the stipulated timeframe and to present the reports.</p> |
| <p>(b) As the research topics were included in the Action Plan without approval of the Research and Training Committee regarding the research conducted by the institute during the year, 02 research topics were rejected, 02 research proposals were approved as new proposals subsequent to changing its scopes, budgeted expenses were subjected to changes, the action plan was revised again after the receipt of the approval from the Research and Training Committee, the projects could not be completed within the relevant timeframe, and the final results to be given to the society through a research could not be transmitted to the relevant parties within the relevant timeframe.</p> | <p>I accept that the weaknesses pointed out by the audit get up by reason of including the research proposals for research conducted during the year in the action plan before presenting those to the “Research and Training Committee (RTC)”. Accordingly, I agree to present the research proposals to RTC from the year 2026 and to arrange those again as per the recommendations of the Committee and include those in the Action Plan.</p> | <p>The actions should be taken to include the approved research proposals in the Action Plan.</p> |
| <p>(c) The activities such as seminars, workshops, public lectures and presenting the publications of the institution included in the “Information and Communication” project of the Annual Action Plan had been physically completed only 50 percent as of 31 December of the year under review.</p> | <p>Only the “Research Forum” and one other seminar organized to disseminate knowledge to external parties had been conducted. The failure to complete the research in 2023 caused such slow progress in publications. The delay to launch publications was resulted from the shortage of officers in the Information and Communication Division.</p> | <p>The tasks should be fulfilled as per the action plan.</p> |

- (d) According to the operational plan of the institution, a provision of Rs. 1,400,000 had been allocated to implement 26 programs in 4 districts as first and second phases of the “Agricultural Entrepreneurship Development Training Program” under the training programs. Accordingly, an amount of Rs. 1,200,000 had been estimated for 20 programs in Monaragala and Kegalle districts under the first phase, and an amount of Rs. 200,000 had been estimated to implement 6 programs in Polonnaruwa and Matale districts under the second phase. Accordingly, 3 programs had been conducted under the first phase in Gampaha, Ratnapura and Kandy districts at a cost of Rs. 980,000, and 4 programs had been conducted under the second phase in the Matale district at a cost of Rs. 190,000. The desired goal had not been able to achieve as the programs were implemented without identifying the target group. Further, the programs expected to be implemented had been changed without revising the action plan.
- 06 programs of second phase had been planned for the year 2024 under the theme of developing agri-entrepreneurs, and four programs out of those were conducted in Matale based on the requirement. However, it was identified that the number of entrepreneurs who could be taken for the second phase among the beneficiaries of the first phase program held in Polonnaruwa District in 2023 was very limited.
- The programs should be prepared and implemented so as to suit the objectives of the institution.
- Since the program plan and cost estimate were revised and approved at the start of the last quarter of the year 2024, it has not been able to be included in the revised action plan for the year 2024.