

Hector Kobbekaduwa Agrarian Research and Training Institute

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Hector Kobbekaduwa Agrarian Research and Training Institute had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Hector Kobbekaduwa Agrarian Research and Training Institute as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on financial statements

1.2.1 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

(a) A statement of accepting the responsibility for financial statements had not been presented along with the financial statements presented to audit in terms of Sri Lanka Accounting Standard No. 03.

(b) Sri Lanka Accounting Standard No. 18

(i) Nine motor vehicles at a cost of Rs.4,990,323 which are continuously used by the Institute had been fully depreciated and the net value had been shown in the financial statements and also those vehicles had not been revaluated.

- (ii) The total expenditure incurred on scholarships given for the development of knowledge and capacity building of the officers of the Institute amounted to Rs.20,691,656 and it had been brought to accounts as non-current assets in the name of employees development in the balance sheet.

1.2.2 Accounting Deficiencies

A recoverable insurance indemnity of Rs.173,700 had been shown under other debtors without showing as recoverable indemnity in the financial statements.

1.2.3 Unreconciled Control Accounts

There were instances where the balances included in the financial statements had not been reconciled with the balances in the schedules/ registers presented to audit along with the financial statements. Details are given below.

Item	Balances per financial statements	Schedule/ register	Balance as per schedule/ register	Difference
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	Rs.		Rs.	Rs.
Publications and Journals	1,456,482	Schedule	1,467,052	10,570
Consumables	1,161,989	- do -	1,159,364	2,625
Marketing Centre	332,329	- do -	329,427	2,902
Purchase of computers and computer equipment in the year under review	830,294	Register of fixed assets	712,274	118,020

1.2.4 Lack of Evidence for Audit

The following items of accounts could not be satisfactorily vouched or accepted in audit due to non availability of evidence stated against each item.

Item	Value	Evidence not made available
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	Rs.	
Furniture and Fittings	11,474,394	(i) Detailed schedules (ii) Board of Survey reports (iii) Fixed assets registers including the value of assets purchased prior to the year 2009
Computers and accessories	2,571,807	
Motor Vehicles	2,633,449	
Library Books	2,207,253	(ii) Fixed assets registers including the value of assets purchased prior to the year 2009.
Bad debts written off	386,902	Approval of the Ministry
Motor vehicles and Motor cycle Loans	2,400,000	Documents to prove the purchase of vehicles

1.2.5 Accounts Receivable and Payable

The following observations are made.

- (i) A balance of Rs.234,732 recoverable from 2 officers who had vacated their posts had remained unrecovered for more than 4 years.
- (ii) Advances of Rs.660,758 given to 20 employees during the year under review had not been settled even by 31 December 2010.

- (iii) A sum of Rs.461,742 receivable from 8 institutions and persons was due for the period from 01 to 06 years.
- (iv) Unidentified debtors (bonds) of Rs.110,374 brought forward since 2008 in the financial statements had been deducted from debtors of the year under review and brought to accounts.
- (v) Even though the balance of Rs.5,102,707 remained after the completion of 14 research projects had been shown under creditors since 2009 in the financial statements, this money had been used for the recurrent expenditure of the Institute. Thus the Director of the Institute had informed by his letter dated 07 April 2011 that, there was no sufficient money to settle these creditors in the Institute.
- (vi) A sum of Rs.453,955 was due from 18 debtors as at the end of the year under review. Out of them, confirmation letters had been sent only 6 debtors.
- (vii) The outstanding amount as at 31 December 2010 was Rs.98,991 due from one employee whose service was suspended had not been recovered.
- (viii) The loan balance and due from five employees to whom loans had been granted under loan scheme amounted to Rs.120,237.
- (ix) The debtor balance of scholarship holders outstanding as at 31 December 2010 amounted to Rs.22,331,454, out of which a sum of Rs.11,438,649 had been recoverable from 6 persons. Any money whatsoever had not been recovered during the year under review.

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

 Instances of non-compliance with the following laws, ruled, regulations etc observed in audit are given below.

Reference to laws, rules, regulations etc.,	Non-compliance
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(a) Financial Regulations (F.R.) of the Democratic Socialist Republic of Sri Lanka F.R. 371(2)	Ad-hoc sub imprest of Rs.130,000 had been given in 10 instances in excess of Rs.20,000.
(b) Circulars ----- <ul style="list-style-type: none"> (i) Public Administration Circular No. 41/90 of 10 October 1990 paragraph 2 (ii) Public Administration Circular No. 01/2002 of 25 February 2002 Paragraph 9.3.1 	Fuel consumption of vehicles in running condition should be tested once in 6 month. Nevertheless, the fuel test had not been carried out since 01 February 2005. The official emblem on 7 vehicles belonging to the Institution had not been stenciled.

- (c) Procurement Guidelines 2006 Paragraph 2.14.1
- (i) Quotations for vehicle repairs had not been called for and a sum of Rs.1,391,197 had been spent for the repairs of 11 vehicles from an unregistered supplier.
- (ii) Twenty eight Air Conditioners had been purchased by paying a sum of Rs.1,509,206 without following the proper tender procedure.

1.2.7 Transactions without Authority

An initial deposit of Rs.2,000,000 had been made in a Bank for the implementation of a housing loan scheme for employees without the approval of the Treasury and an agreement had been entered into grant loans on the basis of that deposit in the year 1993.

Accordingly, the loans granted in excess of the deposit balance of Rs.2,361,944 existed as at the end of the year, amounted to Rs.1,629,394 and it had been shown as a current liability in the Balance Sheet. The loan scheme operated from the fund of the Institute had not been disclosed in the financial statements.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the operation of the Institute had resulted in a deficit of Rs.13,298,964 for the year under review as compared with the deficit of Rs.3,647,506 for the preceding year. As compared with that of preceding year increase in administrative expenditure and the receipts of lesser amount from the Treasury had been the reasons for the deterioration of financial results by Rs.9,651,458.

2.2 Performance

Fifteen projects indicated in the year under review by the Institute and four projects of the preceding year had been implemented. Of that 14 projects had been completed during the year 2010. However, 2 projects valued at Rs.5,572,435 had been abandoned due to unavailability of necessary of funds and information.

2.3 Management Inefficiencies

The following observations are made.

- (i) Even though all loan balances should be settled before proceeding abroad on no pay leave, a loan balance of Rs.99,362 had to be recovered as at 31 December 2010 from an officer who had gone abroad on no pay leave in the year 2009.
- (ii) Without assessing the required amount of advanced 14 officers had obtained advances of Rs.270,000 and a sum of Rs.199,497 had been returned after periods ranging from 4 to 14 days.
- (iii) Before settling the previous advances the advances had been paid again to 3 officers in 08 instances.
- (iv) A proper course of action had not been taken by the Institute in respect of 285 Library books borrowed by persons but not returned and the damaged books of 129.
- (v) Action had not been taken to acquire the Pajero vehicle bearing No. 65-1280 belonging to the Food and Agricultural Organization.

2.4 **Assets Management**

Even though 6 years had elapsed after handing over the circuit bungalow operated by the Ministry of Agriculture and Livestock to the Institute, the legal ownership thereof had not been acquired by the Institute.

2.5 **Human Resources Management**

The following observations are made.

- (i) The Institute had not got its cadre approved.
- (ii) Three posts which were not in the list of cadre maintained by the Institute had been recruited and 3 persons overaged had been recruited on casual basis .
- (iii) Even though the service period of 4 employees who employed on casual basis had been completed had been employed without being terminated or extended the period of service.
- (iv) Even though an National Diploma in Technical certificate holder should have been recruited as at the date of recruiting the maintenance officers post, the maintenance officer recruited in the year 2008 had been recruited , despite he had not qualified as at that date.
- (v) Without recruiting for the seven permanent posts in the Institute, acting appointments had been made for the periods ranging from 7 to 41 months and made a payment of Rs.367,360.
- (vi) Twenty two employees had been recruited on assigned of duties basis and casual basis since June 2010 and only the approval of the Board of Directors had been obtained without the approval of the Treasury.
- (vii) Thirty three employees had been recruited outside the recruitment procedure during the year 2010 and 15 employees had been recruited in excess of the approved cadre.

2.6 Budgetary Control

Significant variances were observed between the budgeted figures and actuals thus indicating that the Budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

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

- (a) Personnel Management
- (b) Advances
- (c) Staff Loans
- (d) Fixed Assets Management
- (e) Income Accounts