

Hadabima Authority of Sri Lanka

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 Hadabima Authority of Sri Lanka 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 Hadabima Authority of Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Accounting Policies

Comparative figures had not been presented relating to the accounts of sales centre in the year under review.

1.2.2 Accounting Deficiencies

- (i) The stock of animal food at the Pallekele farm as at 31 December 2010 had been over computed by Rs.1,894,788 and brought to accounts. Accordingly the surplus shown in the financial statements had also been over stated by that amount.

- (ii) As the balance stock of eggs and plants at Kotmale plant nursery and the stock of poonack included in the animal food stock had been valued at selling price and higher price respectively, the value of closing stock amounting to Rs.374,277 and Rs.85,750 respectively totaling Rs.460,027 had been overstated. As such, the deficit shown in the farm account had been understated by that amount.
- (iii) Depreciation amounting to Rs.958,675 relating to the vehicles and furniture valued at Rs.3,939,000 received as a donation had been credited to the fixed assets account twice and as such the surplus of the year and the fixed assets had been understated by a similar amount.
- (iv) The stock valued at Rs.4,999,350 consumed during the year under review had been adjusted to the Accumulated Fund by four journal entries without being debited to the relevant expenditure head and as such the surplus of the year had been overstated by that amount.
- (v) Fund amounting to Rs.1,215,853 received for the purchase of fixed assets during the year under review had been shown in the income and expenditure account as capital grants without being accounted as the receipt of capital grants in the balance sheet. As a result the surplus of the year and the capital account had been overstated and under stated respectively. Thus the accumulated grants of Rs.19,402,428 received from the Treasury for the purchase of fixed assets had not been disclosed under funds in the balance sheet.

1.2.3 Accounts receivable and payable

The following observations are made.

- (a) Two loan balances of Rs.13,501 given under Gampola Housing Loan Scheme in the year 1983 had not been recovered yet.
- (b) A festival advance balance of Rs.3,150 receivable since more than 5 years from 3 employees who had left the Authority and a special advance balance of Rs.4,300 receivable from 2 to 5 years from 4 employees who had left the service of the Authority had not been settled yet.
- (c) Even though 15 employees had been recruited in the year 1989 for the implementation of the world food programme, they had been terminated, due to non operation of the project since 1996. Action had been taken to write off from books without recovering the distress loan balances of Rs.217,903 granted to them by the Authority.
- (d) Out of the overpayment of secondment allowance amounting to Rs.97,950 made to 03 officers who had been recruited on secondment basis and dismissed from service in the year 1996, any money whatsoever had not been recovered even during the year under review.
- (e) Action had not been taken to recover the loss of Rs.27,862 on Banana plants brought forward since number of years and a sum of Rs.54,515 due from the Open Prison Camp Pallekele even during the year under review.

2. Financial and Operating Review

2:1. Financial Review

Financial Results

According to the Financial Statements presented, the operation of the Authority for the year ended 31 December 2010 had resulted in a surplus of Rs.11,769,650 as against a deficit of Rs.2,388,756 for the preceding year thus indicating an improvement of Rs.14,158,406 in the surplus for the year under review. A sum of Rs.69,219,743 received for capital and special projects in the year 2010 brought to accounts as income and saving of Rs.13,634,011 there from had been the main reason for this surplus. Nevertheless, it could not be satisfied the accuracy of this surplus in view of comments on financial statements stated in Paragraph 1.2 of this report and other deficiencies.

2:2. Operating Review

2:2:1. Operating Inefficiencies

- (a) Although the planting materials should be issued in considering the number of farmers and the extent of lands after being studied the survey reports in issuing planting materials to the field, much more seeds had been issued as compare to the extent of lands within the Yatawatta Divisional Secretariat Division contrary to that requirement.
- (b) It was observed that the Head Office had not done a proper supervision to ensure whether the planting materials issued to field officers had been properly distributed and the balance materials had been correctly handed over. At physical examination carried out in this connection, it was observed that 5.8 kg of chillies, bitter gourd and bussita type long bean seeds which were not distributed within the Yatawatta Divisional Secretariat Division had not been handed over back.

- (c) Even though the Pallekele sales centre had been operated by the welfare society of the Authority for a short period of 2 months during the year under review, it had been abandoned subsequently. As such, the Authority had deprived of sales income or the rent income as action had not been taken to hand over the centre to another party for operating business.
- (d) A Jeep and a Pajero valued at Rs.2,200,000 received from the Ministry of Agriculture in the years 2003 and 2005 had not been formally transferred.

2.2.2 Fruitless Expenditure

A sum of Rs.459,914 or out of 20% of the estimated amount had been spent in December 2004 in respect of initial construction work of the building proposed to be constructed for the agrarian training activities of the Kotmale farm, and the construction works had not been completed even by January 2011 due to non receipt of required provision.

2.2.3 Idle and Underutilized Assets

A tractor costing Rs.75,000 and a motor cycle valued at Rs.82,500 had not been at a running condition during the year 2010 and action had not been taken to repair and put them in to running condition or to auction. Instead they had been idle for nearly 2 years.

2.2.4 Identified Losses

- (a) Out of various types of seeds purchased for the distribution among the farmers of the Ethipola West Grama Niladari area in the Yatawatta Divisional Secretariat Division under soil conservation Project in the year 2010, 13kg 655g of seeds valued at Rs.35,904 had not been distributed among farmers even by 25 November 2010 and as such they had become obsolete. At a physical verification carried out on 25 November 2010 in the same division it was revealed that, seeds valued at Rs.8,979 shown in the distribution registers had not been so distributed.

- (b) At the physical verification carried out in September 2010 in the plant sales center there was a shortage of 2800 plants of 7 types and an excess of 108 plants relating to one type.

2.2.5 Performance

The following observations are made.

- (a) A sum of Rs.37,117,376 had been received from the Ministry of Agriculture during the year under review for the implementation of special projects but only 10 projects valued at Rs.31,274,833 had been implemented during the year under review due to the reasons such as local seeds and planting materials required for projects could not be purchased as required by the Authority, unable to implement the project due to severe drought and certain projects had been commenced in August 2010 etc. Accordingly a sum of Rs.5,842,543 had been returned to the Ministry. There were long delays ranging from 43 to 230 days in purchasing materials even for the projects implemented.
- (b) The water tank project had been implemented in the year 2011 and the materials had been purchased by the Head Office and the distribution to the field had been done by lorries of the Authority and hired Lorries from the private sector, incurring high cost and long delays were observed by implementing this project, thus more economical methodology had not been applied. There were 253 undelivered bags of cement existed in the stores even as at 30 June 2011.

2.2.6 Budgetary Control

Significant variances were observed between the budget estimates 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 Chairman from time to time by my reports. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Soil Conservation projects and Special Projects
- (c) Distribution of planting materials
- (d) Stock Control