

Sri Lanka Council for Agricultural Research Policy - 2013

The audit of financial statements of the Sri Lanka Council for Agricultural Research Policy for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 18(3) of the Sri Lanka Council for Agricultural Research Policy Act, No. 47 of 1987. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was issued to the Chairman of the Council on 27 January 2015.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Council's preparation and fair presentation of the financial statements 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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2:2 of this report, the financial statements do not give a true and fair view of the financial position of the Sri Lanka Council for Agricultural Research Policy as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

Standard No. 02

Cash Flow Statement had not been prepared showing cash in-flows and out-flows during the year under review in accordance with the standard. The following inefficiencies were observed in that regard.

- (i) The Net Result had been indicated without separately identifying a sum of Rs.16,323,030 received as Treasury grants for research and, expenses incurred during the year amounting to Rs. 7,006,672 as receipts and payments.
- (ii) The Net Result had been indicated without considering the profit incurred by the disposal of Fixed Assets and the cash received in that regard during the year under review

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Provisions for gratuity had been understated by a sum of Rs. 157,741 for the year under review due to computation errors.
- (b) Eventhough errors identified with regard to Capital Grants and Fixed Assets relating to the previous period had been rectified during the year under review; the Council Fund Account, Rewards Account, and the accumulated Deficit had further been overstated by sums of Rs.9,928,638, Rs. 541,785 and Rs. 4,909,826 respectively whereas, the Treasury Research Grants Account had been understated by a sum of Rs. 5,560,597 due to erroneous calculations.

2.3 Accounts Receivable and Payable

Although the Competitive Agreement Research Program had ended up on 31 December 2010, a sum of Rs. 659,131 out of the advances granted in that regard had remained unsettled even up to 31 December 2013.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

<u>Reference to Laws, Rules and Regulations</u>	<u>Non-compliance</u>
(a) Sri Lanka Council for Agricultural Research Policy Act No. 47 of 1987	
(i) Section 4(1)	Although the Board of Directors for the Council should consist of 14 members, there were 12 members as at 31 December 2013.
(ii) Section 4.1(a)	The Secretary to the Ministry of the Minister in charge of agricultural research or a subject, related to agricultural research, should be appointed as a member of the Council. However, the Additional Secretary to the Ministry of Agriculture had been appointed as a member of the Council.
(iii) Sections 4(1)(d) and (m)	A person who is either a Director of an Agricultural Research Institute related to perennial crops or, bears responsibility for agricultural research of such an institute and , one excelled in scientific research and management under recommendation of the Council , should be appointed as members of the Board of Directors. However, this requirement had not been complied with.
(iv) Section 7(4)	Although the service period of the Chairman should be 03 years the letter of appointment for the Chairman appointed on 12 May 2010, had not specially stated the period of service.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
Financial Regulations	A stock of computers , office furniture, office equipment, stationeries and consumable items purchased at a cost of Rs. 733,564 and identified to be unusable during the year under review, had been removed from books without being complied with regulations.

3. Financial Review

3.1 Financial Results.

The financial result of the Council for the year under review had been a deficit of Rs.3,909,295 as compared with the deficit of Rs.7,285,498 for the preceding year. Accordingly, the deficit of the year under review had decreased by Rs. 3,376,203 as compared with the previous year mainly due to increase of Government grants and other income, amortization for Government grants, and administrative and financial expenses by sums of Rs. 4,797,247, Rs. 3,053,942 and Rs. 3,864,010 respectively.

4. Operating Review

4.1 Performance

The following observations are made.

(a) In spite of the 13 Committees established by the Council, a notable decrease in researches had been observed as compared with the previous years. Particulars of 11 Committees presented to audit, are as follows.

(i) Approval had been granted for 172 researches out of the research proposals presented during the previous 03 years. However, only 72 researches had been concluded and ,out of that , Terminal Reports had been presented with regard to 24 researches only.

(ii) Terminal Reports of 32 research proposals worth of Rs. 1,197,979 given to Hector Kobbekaduwa Agrarian Research and Training Institute, had not been received by the Council even up to 31 December 2014 and, no follow-up action had been taken in that regard.

(b) Despite an amount of Rs. 20,200,000 provided for the execution of 13 main functions of the Council during the year under review, only a sum of Rs. 6,367,245 had been spent. The financial progress of 03 of those functions had exceeded 50 per cent whereas, the progress was less than 30 per cent for 08 functions.

4.2 Operating Inefficiencies

A sum of Rs. 1,943,500 had been spent during the year under review for printing 1,500 copies of the book containing information on agricultural researchers with regard to 03 years, and another 5,500 copies of books on other researches out of which, 4,721 copies worth of Rs. 1,054,495 had not been distributed even as at 21 March 2014. The requirement for printing such a large number of books and the approval in that regard had not been presented to audit.

4.3 Expenses incurred Exceeding Provisions

A sum of Rs. 46,217 had been spent by exceeding the provisions received for the implementation of Agricultural Science and Technology indicators Project.

4.4 Identified Losses

A surcharge amounting to Rs. 29,056 had been paid during the year under review as the Council was unable to pay the contributions to the Employee Trust Fund on time.

4.5 Resources of the Council Given to Other Public Institutes.

A cab , worth of Rs. 6,203,000 owned by the Council , had been released to the Line Ministry during the year under review.

4.6 Personnel Management

Although the approved staff was 31, two staff-grade posts and one minor grade post remained vacant as the actual staff was 28 as at 31 December 2013.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Financial Statements for the year 2013 had been presented to audit on 22 April 2014. Those Statements had been recollected on 16 June 2014 in order to rectify the errors and deficiencies included therein. The amended Financial Statements had again been presented to audit on 16 December 2014.

5.2 Budgetary Control

As variations ranging from 22 per cent to 68 per cent between the budget and the actual amounts had been observed, it was observed that the budget had not been made use of as an effective instrument of management control.

5.3 Procurement Plan

The following observations are made.

- (a) Although the work plan for the year under review had included the construction of a protective wall, a road and a drainage system, a name board and a main gate, those works had been completed prior to the year 2013.
- (b) Although it was planned to prepare an accounting software in the Procurement Plan, it had not been done so during the year.
- (c) A sum of Rs. 1,621,350 had been spent on 04 activities not included in the Procurement Plan for the year under review.

6. Systems and Controls

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

- (a) Research expenses
- (b) Implementation of projects
- (c) Contract administration
- (d) Administration of vehicles
- (e) Procurement procedure