

Haritha Danaw Bim Development Central Authority of Sri Lanka (Sri Lanka Hadabima Authority) -2013

The audit of financial statements of the Haritha Danaw Bim Development Central Authority of Sri Lanka (Sri Lanka Hadabima Authority) 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 23 of the Agricultural Corporations Act, No. 11 of 1978. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for Financial Statements

he 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 powers to the Auditor General to determine the scope and 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.

2. Financial statements

2:1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Haritha Danaw Bim Development Central Authority of Sri Lanka (Sri Lanka Hadabima Authority) as at 31 December 2013 and its financial performance and 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 Accounting Policies

Several motor vehicles selected from the class of motor vehicles had been revalued in two instances and brought to account instead of revaluing the entire assets in a class of assets together and accounting for the adjustments.

2:2:2 Accounting Deficiencies

The loan balance payable to the Farmers' Trust Fund and the bank/cash balance had been understated by a sum of Rs.334,400.

2:2:3 Unreconciled Control Accounts

A difference of Rs.155,235 was observed between the value of the livestock shown in the financial statements for the year under review and the physical verification report.

2:2:4 Accounts Receivable and Payable

- (a) A balance of Rs.119,361 out of the distress loans paid to 08 employees remained without being recovered from the year 2009 up to the year under review.
- (b) Action had not been taken for the settlement of the loan balances amounting to Rs.2,147,782 remaining without being recovered over a period exceeding 04 years.

2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations	Non-compliance
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| (a) Section 11 of the Finance Act No.38 of 1971 and Financial Regulations 381 | Even though Bank Accounts should be opened with the approval of the subject Minister given with the concurrence of the Minister in charge of the subject of Finance, contrary to that the Authority had opened 33 Bank Accounts with balances amounting to Rs.24,263,555 as at the end of the year under review. |
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- (b) Treasury Circular No. 842 of 19 December 1978. The Authority had not maintained a Register of Fixed Assets in terms of the Circular.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2013 had been a surplus of Rs.23,704,832 as against the deficit of Rs.32,554,452 for the preceding year. Accordingly as compared with the preceding year, an improvement of Rs.56,259,284 in the financial results was observed.

4. Operating Review

4:1 Performance

The net surplus of the sales outlet maintained in the adjoining premises of the Head Office of the Authority for the year under review as compared with the preceding year had decreased by a sum of Rs.3,851,123 or 48 per cent.

4:2 Management Inefficiencies

- (a) The Veterinary Surgeon had recommended that all the animals in the Poultry Farm should be removed and fumigated and commenced anew due to the death of large numbers of poultry resulting from the spread of salmonella disease in the year 2013. Nevertheless, 138 fowls and 6,300 chicks of 06 old species of poultry purchased by 22 May 2014 had been held in the same old farm.
- (b) According to a Notification published in the Gazette No. 687/15 of 07 November 1991, the name of the National Agricultural Diversification and Settlement Authority had been changed as the new Haritha Danaw Bim Development Central Authority of Sri Lanka. The Manual of Procedure prepared in accordance with the changes in the scope remained in the draft stage even by 31 October 2014.
- (c) Even though the Board of Survey for the year under review had been carried out, none of the recommendations made in the Reports of the Board of Survey had not been implemented even by 31 October 2014

4:3 Operating Inefficiencies

- (a) An estimate of Rs.11.83 million for 06 sub-activities under 5 main activities had been made under the provisions of the Ministry of Agriculture for the year 2012 for the implementation of the Land Development and Crop Productivity Project with the participation of Ranaviru. The Water Facilities Development Activity which was one of the main activities of the project had been fully abandoned while a sum of Rs.1.9

million had been spent contrary to the directives of the Secretary to the Ministry of Agriculture.

- (b) A Chilli Cultivation Project covering 1,000 acres under 03 primary activities with the provisions of the Ministry of Agriculture for the year 2013 had been commenced with the objective of providing active participation to the National Programme for the minimization of importing chillies. The expected objectives had not been achieved due to the implementation of the activity on the supply of local seeds at a cost of Rs.1,182,239 only and abandoning the entirety of the two major activities on the development of water facilities and the supply of carbonic fertilizer for which Rs.2,400,000 and Rs.2,160,000 respectively had been provided.
- (c) A seedlings certification system such as under 03 months and 06 months under the supervision of a responsible officer had not been followed in respect of the seedlings maintained in the nurseries for sale. In view of this situation, it was not possible to ascertain the quantities of seedlings sold.

4:4 Idle and Underutilized Assets

- (a) A stock of outdated chemical fertilizer and agricultural equipment valued at Rs.712,790 and 3 tractors and 3 trailers not valued had been idling in the stores of the Pallekele Farm.
- (b) The Duck Unit, 02 Greenhouses, the Goats Unit, the Cattle Unit and the plough of the hand tractor of the Kotmale Farm premises had been idling up to 30 May 2014.

4:5 Identified Losses

An increasing trend in the deaths of the mother birds and grown birds in the Poultry Farm at Pallekele in the year 2013 was observed. Even though 104 mother birds and 94 grown birds valued at Rs.148,500 had died, the Veterinary Reports thereon had not been obtained.

5. Accountability and Good Governance

5:1 Presentation of Financial Statements

Even though the accounts should be presented to the Auditor General within 60 days after the close of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements had been presented after a delay of 275 days.

5:2 Internal Audit

Even though the Authority had established and implemented an Internal Audit Unit, permanent staff had not been attached to the Unit.

5:3 Audit Committee

Even though the Authority should hold at least 04 meetings of the Audit and Management Committee per year in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003 only 03 meetings had been held in the year under review.

5:4 Unsettled Audit Paragraph

Even though the Committee on Public Enterprises had paid attention to the sum of Rs.2,094,280 shown in the accounts receivable of the Authority from the Land Reform Commission at the meetings held in the years 2010 and 2012 and directed that it should be settled, that remained without being settled even by 28 November 2014, the date of audit.

6. Systems and Controls

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

- (a) Utilization of Provision
- (b) Administration of Sales Stalls and Financial Management
- (c) Boards of Survey
- (d) Farms Management