

**Sri Lanka Hadabima Authority (Haritha Danaw Bim Development Central Authority of Sri Lanka) - 2014**

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The audit of financial statements of Sri Lanka Hadabima Authority (Haritha Danaw Bim Development Central Authority of Sri Lanka) for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 1972. 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 the Financial Statements**

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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 controls 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**

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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-section (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.

**1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial statements**

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**2:1 Qualified Opinion**

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In my opinion except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Sri Lanka Hadabima Authority (Haritha Danaw Bim Development Central Authority of Sri Lanka) as at 31 December 2014 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**

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**2.2.1 Unreconciled Control Accounts**

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The gross profit of the Gannoruwa and Ampara sales outlets for the year under review amounted to Rs.24,096,107. Due to computation of gross profit on the basis of incomplete records, lack of proper accounting system, sales and purchases balances in the general ledger could not be reconciled with other relevant records and as such the accuracy of gross profit of Ampara sales outlet amounting to Rs.1,027,103 could not be established in audit.

**2.2.2 Lack of evidence for audit**

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Evidence such as schedules, confirmation of balances and age analysis in respect of two liability items totalling Rs.752,216 shown in the statement of financial position as at 31 December of the year under review was not made available for audit.

**2.3 Accounts receivable and payable**

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- (a) A rent amounting to Rs.40,000 not due to the Authority had been shown as a receivable amount in the accounts since 2008 and it had been shown in the financial statements of the year under review without being written off this balance from the accounts.
- (b) The unsettled imprest of Rs.10,000 receivable from Kudaoya SANASA Bank since 2011 had not been recovered even by 04 June 2015.
- (c) A sum of Rs.84,898 receivable from the sale of sundry items at sales outlet during the period from 2009 to 2012 had not been recovered even by 04 June 2015.

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

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The following Non-compliances with regulations were observed.

**Reference of Regulations**  
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**Non-compliance**  
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Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 395(c)

Bank reconciliation statements relevant to the current account of Bank maintained by the Authority for the transactions of Ampara sales outlet had not been prepared for 3 years from April 2013 to date.

(ii) Financial Regulation 396 (d)

Action, in terms of Financial Regulations in respect of 287 cheques valued at Rs.705,734, lapsed for more than 6 months from the date of issue as at 31 December of the year under review but not presented for payments, had not been taken.

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the Financial Statements presented, the financial results of the Authority for the year ended 31 December 2014 had been a surplus of Rs.5,653,927 as compared with the surplus of Rs.23,704,832 for the preceding year.

**4. Operating Review**  
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**4.1 Performance**  
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A deterioration of Rs.3,321,543 or 67 per cent in the net surplus in the two sales outlets of the Authority for the year under review as compared with the year 2013 was observed. Increase of wastage of purchases by Rs.1,128,732 or 56 per cent during the year under review as compared with the preceding year and accounting the expenditure incurred on Green Garden Farmer's Conference held in the year under review amounting to Rs.2,239,445 as the expenditure of the sales outlets had been the reason therefore.

**4.2 Management Inefficiencies**  
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According to the stock verifications carried out in two units of the Authority as at 31 December of the previous year, 644 units belonging to 122 various stock items which could not be utilised had been identified and recommended for disposal. But action had not been taken to dispose them even by 04 June 2015 and even the value of which was not computed.

**4.3 Apparent Discrepancies**  
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A sum of Rs.2,209,912 had been paid for the installation of sales computer system and a CCTV camera system for the Marketing Promotion Project of the Authority in the year under review and the year 2015, out of which an overpayment of Rs.163,045 had been made in

excess of the agreed amount. Similarly the approval of the Board of Directors had not been obtained for the payment of Rs.849,912 made out of the above payment.

#### **4.4 Uneconomic Transactions**

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A sum Rs.4,239,445 had been spent for the Green Garden National Farmer's Conference, held in the year under review, neither which had been included in the Action Plan nor provision was made in the Budget. Of this, a sum of Rs.2,000,000 had been reimbursed from other institutions and the balance of Rs.2,239,445 had been spent by the Authority. This money had been spent for the setting up the stage of conference hall, providing foods and provision of facilities for participants such as transport and, sanitary facilities etc.

#### **4.5 Identified Losses**

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- (a) An appropriate course of action had not been taken in respect of shortage of inventory goods valued at Rs.32,856, identified at the Board of Survey carried out at Gannoruwa Sales outlet of the Authority as at 31 December of the year under review and the stock shortage of 06 items out of 298 items of vegetable and various stores items valued at Rs.18,550 between the sales and purchases made in November and December of the year under review, even by 10 July 2015.
- (b) The operational activities of the Kotmale Farm had resulted in a loss of Rs.159,750 in the year under review.

#### **4.6 Personnel Administration**

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Eventhough the permanent posts had been awarded to 29 officers in the Marketing Division in terms of Public Administration Circular No.25/2014 dated 12 November 2014 of the Secretary to the Ministry of Public Administration and Home Affairs, without preparing a scheme of Recruitment formal letters of appointments had not been issued.

### **5. Accountability and Good Governance**

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#### **5.1 Presentation of Financial Statements**

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In terms of Guideline 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, Accounts of Public Enterprises should be presented to the Auditor General within 60 days after the closure of the financial year. Nevertheless, accounts of the year under review had been presented on 04 June 2015, after a lapse of 94 days.

#### **5.2 Unresolved Audit Paragraphs**

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Eventhough the Committee On Public Enterprises met in the years 2010 and 2012 had issued directives to resolve the amount of Rs.2,094,280 due from the Land Reform Commission shown under trade and other receivables in the statement of financial position as at 31 December of the year under review, action had not been taken to recover the dues even by 10 July 2015, the date of audit.

**6. Systems and Controls**

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Weakness in systems and controls observed during the course of audit had been reported by my reports from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Administration of Sales outlets and financial management
- (c) Asset Management
- (d) Debtor Control
- (e) Contract Administration