

Hadabima Authority of Sri Lanka – 2015

The audit of financial statements of the Hadabima Authority of Sri Lanka (Sri Lanka Haritha Danaw Bim Sanwardhana Adhikariya) comprising the statement of financial position as at 31 December 2015 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and Section 23 of the State 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

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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with the 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 misstatement of the financial statements, whether due to fraud or error. In making those risk 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.

1.4 Basic for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Hadabima Authority of Sri Lanka as at 31 December 2015 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 Sri Lanka Public Sector Accounting Standards

(a) Sri Lanka Public Sector Accounting Standard 01

The interest of Rs. 21,550 paid by the Authority for the Farmers' Trust Fund had been shown as a set off against the interest income in the Statement of Financial Performance instead of being shown as expenditure.

(b) Sri Lanka Public Sector Accounting Standard 07

In view of the failure to review the effective life of non – current assets annually, the fixed assets costing Rs. 5,531,800 which were fully depreciated had been used further. As such action had not been taken for the revision of the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Policies

The accounting policy on accounting for income from the Government had not been disclosed in the financial statements and the capital grants amounting to Rs. 35,625,000 received from the Treasury in the year under review had been included in the Statement of Financial Performance.

2.2.3 Accounting Deficiencies

The accrued expenditure on the Employees' Provident Fund as at 31 December of the year under review had been understated by a sum of Rs.59,241.

2.2.4 Unreconciled Control Accounts

Differences amounting to Rs. 7,334,298, Rs.738,245 and Rs.187,448 in the values of purchases, sales and waste respectively were observed between the Monthly Summary Registers maintained by the marketing stalls and the financial statements.

2.2.5 Unexplained Differences

Even though the Employees' Provident Fund expenditure of the Marketing Division of the Authority amounted to Rs. 849,817 that had been shown as Rs. 855,916 in the financial statements.

2.2.6 Suspense Accounts

The unidentified balance of Rs. 50,998 of the " Staff Loan Adjustment " Account existing from in the year 2014 shown under the Trade and other Recoverable Balances in the Statement of Financial Position as at 31 December of the year under review had not been settled.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Twenty five balances receivable totalling Rs. 179,125 relating to periods ranging from 01 year to 05 years as at 31 December of the year under review had not been recovered.
- (b) The loan and interest totalling Rs. 244,034 recoverable from three officers who had served in the Authority had not been recovered even by 31 December of the year under review.
- (c) Twenty one balances payable totalling Rs. 190,767 relating to periods ranging from 01 year to 10 years as at 31 December of the year under review had not been settled.
- (d) Employee's Security deposit amounting to Rs. 13,874 payable to a Storekeeper whose services were terminated 21 years ago had not been settled.

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

Instances of non-compliance with laws, rules, regulations are given below.

Reference to Laws, Rules, and Regulations

Non-compliance

Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (a) | Financial Regulations 139(4), 264 and 267 | Acknowledgement on vouchers or receipts had not been obtained for the overtime, salaries, imprests, distress loans, advances and other payments totalling Rs.1,684,786 paid in 32 instances. |
| (b) | Financial Regulations 139(7), 262(2) and 262(3) | The “paid” seal had not been stamped on the vouchers and the supporting documents relating to payments totalling Rs. 597,892 made in 16 instances. |
| (c) | Financial Regulations 272(3) | Even though the payment vouchers should be forwarded to the Auditor General monthly, not later than six weeks from the end of the month to which they relate, 08 payment voucher for payments totalling Rs. 172,545 relating to the year 2015 had not been forwarded to Audit even by 30 August 2016. |
| (d) | Financial Regulations 396(d) | According to the Bank Reconciliation Statement prepared for December of the year under review, action in terms of the Financial Regulation had not been taken on 12 cheques totalling Rs. 115,563 issued but not presented for payment and lapsed for more than 06 months. |
| (e) | Financial Regulations 571 | Action in terms of the Financial Regulation had not been taken on 10 deposits totalling Rs. 160,637 and remaining without being realized for over 02 years as at 31 July 2016. |
| (f) | Financial Regulations 770 and the Public Finance Circular No. 438 of 13 November 2009. | A small tractor costing Rs. 147,900 had not been deposited of. |

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the financial results of the Authority for the year under review amounted to a surplus of Rs. 798,108 as compared with the corresponding surplus of Rs. 5,653,927 for the preceding year, thus indicating a deterioration of Rs. 4,855,819 in the financial result for the year under review as compared with the preceding year. Even though the Treasury Grant (Recurrent) for the year under review had increased by a sum of Rs. 10,360,830, the decrease of Capital Grants by a sum of Rs.21,492,163 and the increase of the employees remuneration by a sum of Rs. 7,981,198 had been the main reasons for the deterioration of the financial result.

An analysis of the financial results for the year under review and 04 preceding years indicated that the surplus of Rs. 6,419,554 of the year 2011 had been converted to a deficit of Rs. 32,601,898 in the year 2012 and converted to surpluses in the years 2013 to 2015. Nevertheless, in consideration of employees emoluments and depreciation the contribution of Rs. 35,556,330 in the year 2011 had increased with different fluctuations to Rs. 63,733,824 in the year 2015.

3.2 Legal Action Instituted Against /by the Institution

Six officers had filed 02 cases in the Courts against the Authority for the termination of their services and praying for their employment and the Authority had filed a case in Courts against a former employee for the recovery of a sum of Rs. 502,582 in connection with the misuse of the resources of the Authority.

4. Operating Review

4.1 Performance

The objectives of the Authority are given below.

- (a) Implementation of all steps deemed necessary for planning and implementing of the agricultural diversification, development of settlements, fully integrated water divergence management and co-ordination and implementation of those plans by the Corporation or through the Government or Non-Governmental Agencies in the areas the Minister may determine from time to time.
- (b) The management of all lands vested in or transferred to the Corporation with the objective of ensuring the optimum productivity, safeguarding the environment conservation of land and water resources and the development of settlements.
- (c) Processing and marketing of agricultural products.

- (d) Establishment of plant, equipment and machinery for agricultural diversification and development of settlement and maintenance and operation thereof.

It was observed that the optimum productivity of the lands vested in the institution under the above objectives had not been achieved. In view of this reason, the farms at Kotmale and Pallekelle had incurred losses of Rs. 219,381 and Rs. 1,326,128 respectively during the year under review.

4.2 Management Activities

The following observations are made.

- (a) Even though a decision had been taken for the disposal of two motor cycles and a tractor which had been taken off from running, it had not been done even by August 2016.
- (b) The ownership of a lorry costing Rs. 900,000 included in the financial statements for the year under review had not been transferred to the Authority.

4.3 Assets not Vested Formally

Even though the Authority had utilized 2 lands and 2 buildings over periods ranging from 05 years to 13 years, those had not been formally vested in the Authority even by 30 June 2016. A sum of Rs. 2,655,149 had been spent on construction works done on 02 lands not vested.

4.4 Irregular Transactions

A penalty of Rs. 18,387 had been paid for the delayed remittance of contributions to the Employees' Trust Fund.

4.5 Identified Losses

Sum totalling Rs. 1,739,764 comprising Rs. 944,997 had been paid in the preceding year and Rs. 794,767 had been paid in the year under review without purchasing goods and according to the information furnished to Audit, a further sum of Rs. 1,164,764 remained recoverable from the parties responsible in that connection.

4.6 Staff Administration

The approved staff for 11 categories of employees of the Hadabima Authority as at 31 December of the year under review had been 93 and the actual staff had been 57 and as such 36 vacancies existed.

5. Accountability and Good Governance

5.1 Internal Audit

The Authority could not conduct an adequate internal audit as an adequate staff had not been recruited for the Internal Audit Division.

5.2 Budgetary Control

Significant variances ranging from 29 per cent to 45 per cent were observed between the budgeted expenditure and the actual expenditure for the year 2015, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Tabling of Annual Report

The Annual Reports for the years 2012,2013 and 2014 had not been tabled in Parliament even by 31 August 2016.

5.4 Unresolved Audit Paragraphs

Even though the Committee on Public Enterprises had, at the meeting held in the year 2010, paid attention to the sum of Rs. 2,094,280 receivable from the Land Reform Commission from periods beyond the year 2010 and shown in the Statement of Financial Position under the other balances receivable and directed that action should be taken for the settlement. Nevertheless, it had not been settled even by 31 December of the year under review.

6. Systems and Control

Deficiencies in systems and controls observed during the course of audit 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.

Areas of Systems and Controls

Observation

(a) Accounting

Non – approval of Journal Entries by the Accountant.

(b) Marketing Decision

Existence of deficiencies in the activities such as takeover of Agri goods to the store and issue of stocks, stock verification, adjustment of waste of stocks and assignment of duties of the Marketing Division.