

Hector Kobbekaduwa Agricultural Research and Training Institute - 2015

The audit of financial statements of the Hector Kobbekaduwa Agricultural Research and Training Institute for the year ended 31 December 2015 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 Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 24 of the Hector Kobbekaduwa Agricultural Research and Training Institute Act, No. 05 of 1972. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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 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 risk assessments, the auditor considers internal control relevant to the Institute'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 Institute'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. Subsections (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

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except 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 Hector Kobbekaduwa Agricultural Research and Training Institute 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 Accounting Deficiencies

The following observations are made.

- (a) The 10 per cent contribution to the Employee Provident Fund, amounting to Rs. 5,134,370 that had been computed for the period from January 2006 to December 2011 by taking into account the cost of living allowance and holiday pay, had not been recovered from the relevant employees. It had been accounted as an expense of the Institute instead.
- (b) The cash flow statement had not been prepared by showing cash in-flows, and out-flows, and the following deficiencies were observed in the cash flow statement presented.
 - i. The investment income received in cash for the year under review amounting to Rs. 258,365, had been shown in the cash flow statement as a cash out-flow of Rs. 435,112.
 - ii. In the preparation of cash flow statement following the indirect method, the investment income of Rs. 435,112 should have been deducted under the notes of the accounts that had been adjusted to the deficit of the year. However, it had been added.
- (c) The sum of Rs. 1,020,200 paid in the years 2011, and 2013 for the construction of bio-gas unit that remains functional since the year under review, and the expense of Rs. 225,000 incurred for purchasing a waste container, had been treated as expenses of the year instead of being capitalized. This asset, which was an expense of capital nature, was still in use.

2.2.2 Unexplained Differences

Although the balance of the consumable items included in the financial statements amounted to Rs. 1,755,811 by the end of the year under review, it amounted to Rs. 1,681,024 as per the

schedules made available in that connection. As such, a difference of Rs. 74,787 was observed.

2.3 Accounts Receivable and Payable

The total debtors and creditors balances older than 5 years amounted to Rs. 20,005,156, and Rs. 947,652 respectively. An effective methodology had not been implemented in order to settle those balances.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.15, 840,332 as compared with the corresponding deficit of Rs.10,364,363 for the preceding year. The financial result for the year under review, as compared with the preceding year, indicated a deterioration of Rs.5,475,969. Increase in the Government grants by Rs. 27,761,167, salaries and allowances by Rs. 36,240,444, depreciations by Rs. 2,713,095, and decrease in training expenses by Rs. 5,829,137 had mainly attributed to the deterioration of the financial result. Despite a deficit in the financial result had been indicated in analyzing the financial results of the year under review and 04 preceding years, the contribution of the year 2011 amounting to Rs. 79,477,329, had improved up to Rs. 141,913,921 by 79 per cent during the year under review in considering the employee remunerations and the depreciation of non-current assets.

4. Operating Review

4.1 Performance

The main objectives of establishing the Institute, are as follows.

- i. Strengthening, assisting and encouraging agrarian researches and ensuring uniformity.
- ii. Co-ordination of agrarian researches through Government Departments, Local Authorities, Government Corporations and other institutions.
- iii. Investigating and conducting researches on institutional issues that affect the development of agriculture.
- iv. Investigating, Studying and conducting researches on the utilization of lands in an economically productive manner so as to achieve objectives relating to agriculture.
- v. Undertaking socio-economic researches on agriculture and rural development.
- vi. Providing or implementation of training facilities and programmes relating to agrarian research, either alone or in association with other institutions in Ceylon or abroad and to award diplomas, degrees, prizes and distinctions in connection therewith.

- vii. Sponsoring and conducting conferences and seminars, and publish journals and magazines in connection with agrarian research and training.
 - viii. Carrying out such research relating to problems of agrarian structure in co-operation with Asian countries in order to serve their regional needs and provide a centre for the collection and dissemination of information on agrarian problems.
 - ix. To relate such research to problems connected with agrarian development and modernization with special reference to Ceylon and other Asian countries in general.
- (a) Although, the Institute remained functional since the year 1972, action had not been taken to achieve the following objectives.
- i. Providing sponsorships for seminars, colloquiums, and workshops at regional, or international level.
 - ii. Conducting researches on the issues relating to agrarian activities with the cooperation of Asian countries so as to fulfil the regional requirements, and acting as a center for collection and dissemination of information relating to the problems faced by the farmers.
 - iii. Using the issues relating to agricultural development and renovation of other Asian countries for researches.
- (b) Considerable delays were observed when research projects were implemented by the Institute in line with plans. It was observed that reports in respect of 21 research projects on which a sum of Rs. 11,571,000 had been incurred in the years 2010, 2012, 2013, and 2014, had not been disseminated even by 26 April 2016. As it is not possible to disseminate the results of the researches to the relevant fields, due to delay of the final report of the researches relating to the agrarian field, it was observed that the objectives expected from the researches could not be achieved.
- (c) Of the 14 research projects that had been planned to complete during the year under review, 12 projects had not been completed by 26 April 2016. The estimated provision for those projects amounted to Rs. 7,672,000, and a sum of Rs. 7,297,000 had been spent.
- (d) Research and training which are the main activities of the Institute, should have been carried out on the recommendations, proposals, and evaluations of the Committee of Research and Training. However, the representation of the said Committee had been minimal as only one and two sessions of the Committee meetings had been held in the years 2014 and 2015 respectively.
- (e) Only 43, out of the 80 training programs that had been planned for the year under review as per the action plan of the Institute, had been conducted.

4.2 Management Inefficiencies

The following observations are made.

- (a) The official quarters of the Director had been occupied by external parties, and a sum of Rs.73,543 had been spent by the Institute during the year under review on electricity and water bills.
- (b) In spite of being interdicted on financial misconduct, the Assistant Registrar (Administration) had been reinstated. The Board of Control had ordered that the preliminary investigation carried out in that connection be annulled and a new investigation should be carried out. The reinstatement of officers alleged to have committed financial fraud, without taking disciplinary action contradicts with Section 31 in Chapter XLVIII of Volume 2 of the Establishments Code. It was also observed that the investigations could be hampered due to the situation arisen therefrom.
- (c) A possible income of interest had been deprived as a sum of Rs. 12,499,876 had been retained in a bank current account throughout the year under review without being invested.
- (d) A vehicle owned by the Institute had been dispatched to the Ceylon German Technical Training Institute, in the year 2013 for repairs. Although, a sum of Rs. 116,628 had been paid in that connection, the Institute had not brought back the vehicle even by 26 April 2016 after being repaired.
- (e) As the rooms of the hostel owned by the Institute had been allowed for external persons without being charged, the Institute had been deprived of a sum of Rs. 1,287,655 during the year under review.

4.3 Human Resource Management

The following observations are made.

- (a) The post of Registrar of the Institute had remained vacant over a period of more than 05 years since 03 January 2011 up to date of audit, on 22 April 2016.
- (b) A newspaper advertisement had been published on 20 July 2014 by incurring a sum of Rs. 247,296 for the recruitment of a Senior Statistical Officer and five Research Officers to the Institute, and an applicant had been selected for the post of Statistical Officer by conducting an interview on 29 October 2014. However, recruitment had not been made even by 20 April 2016, whereas action had not been taken to conduct an interview even by April 2016 for recruiting Research Officers.

5. Accountability and Good Governance

5.1 Budgetary Control

As the budget had been amended on 05 December 2015 based on actual information by the end of the year, the budget had not been made use of as an effective instrument of management control.

5.2 Procurement and Contract Procedure

The following observations are made.

- (a) The Procurement Plan had not been prepared in accordance with Guideline 4.2.1 of the Government Procurement Guidelines, and the prepared plan, had not been reviewed, and updated.
- (b) Considerable variations were observed between the actual expenditure, and the provisions in the Procurement Plan for purchasing furniture and office equipment.
- (c) Committees for opening bids had not been appointed in awarding contracts for purchasing 16 computers valued at Rs. 1,726,780, and renovating buildings valued at Rs. 2,154,441.
- (d) Computers valued at Rs. 1,726,780 had been procured in the year under review from the lowest bidder who had been turned down by the Technical Evaluation Committee as their products had been locally assembled, issues relating to the brand name, and failure to furnish evidence regarding their sales experience during the previous six year period. Complaints relating to faults of the computers, and failures in providing services within the stipulated period as per conditions, had been made by the Divisions to which computers had been issued.
- (e) The same officer had been involved in the Technical Evaluation Committee, Procurement Committee, and opening bids.

5.3 Unresolved Audit Paragraphs

The following observations are made.

- (a) A vehicle belonging to the World Food Project, had been given to the Institute in the year 2011, but action had not been taken to acquire the legal ownership of the vehicle.
- (b) Cases had been filed against 10 scholarship holders who had breached agreements and read for post graduate studies at foreign universities. I had been informed by the management that recovery of a sum of Rs. 8,539,799 from 06 of them had remained doubtful.

5.4 Presentation of Accounts

The financial statements should be presented to the Auditor General within 60 days from the closure of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003. However, the financial statements had been presented on 05 April 2016.

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 Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Controls -----	Observations in Brief -----
(a) Financial Administration	Failure to take action to settle loans
(b) Control of Research Projects	Failure to implement as planned, and delays in publishing the reports.
(c) Control of Assets	Failure to utilize funds to achieve objectives effectively, and weaknesses in controlling vehicles.
(d) Staff Administration	Failure to make substantive appointments for long-term acting posts, failure to implement the recommendations of the examinations carried out on appointments, reinstatement of officers with accusations without preliminary disciplinary inquiries.