

Sri Lanka Council for Agricultural Research Policy – 2015

The audit of financial statements of the Sri Lanka Council for Agricultural Research Policy for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, 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.

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 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. 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 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 Council for Agricultural Research Policy 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 Standard 07

The ownership of lands where the Council had been established was not possessed by the Council as per the Standard, and it had not been disclosed in the financial statements of the year under review.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The amortization of Rs. 5,116,750 relating to the motor vehicles of the year 2015, should have been deducted from the Treasury research grants. However, it had been debited to the Council Fund instead.
- (b.) Due to computational errors, gratuity provisions, and accrued traveling expenses had been understated by sums of Rs. 656,761, and Rs. 78,200 respectively.

2.2.3 Transactions not Supported by Adequate Authority

According to the Public Enterprises Circular, No. PED 1/2015 dated 25 May 2015, officers entitled for HM 1-1 salary scale had been entitled to official vehicles with effect from 01 June 2015. However, a sum of Rs. 516,550 had been paid as vehicle and fuel allowances for a period of 03 months in the year 2015 without verifying whether personal vehicles had been used to travel for official purposes.

2.2.4 Lack of Evidence for Audit

The sample check conducted on the supply of security services revealed that a payment of Rs. 89,196 had been made in February 2015. But, information relating to the attendance of the employees had not been made available to audit in order to ensure the accuracy.

2.3 Accounts Receivable and Payable

The balance of the Project Account amounting to Rs. 2,629,517 being brought forward since the year 2013 under the trade and other payable balances, had not been settled even up to 31 December 2015.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
-----	-----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 756	Annual Boards of Survey had not been conducted with respect to the year under review.
(b) Treasury Circular, No. 842 dated 19 December 1978.	A Register of Fixed Assets had not been properly maintained for the non-current assets valued at Rs. 18,796,555 as at 31 December of the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Council for the year ended 31 December 2015 had been a surplus of Rs.3,594,269 as against the deficit of Rs.1,640,735 for the preceding year, observing an improvement of Rs.5,235,004 in the financial result of the year under review as compared with the preceding year. The increase in the Government capital grants by a sum of Rs.4,242,810, and the decrease in the administrative expenses by a sum of Rs.1,540,188 during the year under review had attributed to this improvement.

In analyzing the financial results with respect to the year under review and 04 preceding years, the Council had sustained a net loss from the year 2011 to 2014, whereas a net profit of Rs. 3,594,269 had incurred in the year 2015. In considering employee remunerations and the depreciation on non-current assets, the contribution of the Council amounting to Rs. 10,396,045 in the year 2011 had continuously improved up to Rs. 34,888,202 in the year 2015.

4. Operating Review

4.1 Performance

- (a.) In accordance with the Sri Lanka Council for Agricultural Research Policy Act, No.47 of 1987, the functions of the Council include : to ensure the productivity, profitability and sustainability of the industrial sector by means of the economically productive, environmentally-friendly, and socially-acceptable agricultural researches with strong inter-institutional cooperation, and to ensure the national food safety. However, it was observed that those functions could not be executed sufficiently as the provisions required for the execution of the functions had not been obtained on time.
- (b.) A sum of Rs. 20,447,000 had been received as Capital grants for the year 2014. Although requests for Capital grants for the year 2015 should have been made prior to September, 2014, it had not been so done. Accordingly, only a sum of Rs. 978,655 had been received as Capital grants for the year under review.
- (c.) Despite being planned to conduct 86 meetings on the projects relating to the evaluation of national agricultural researches, preparation of national agricultural priorities, and national agricultural research programmes, 62 meetings could not be conducted due to the reason mentioned above. Furthermore, it had been planned to evaluate the site project of 60 national agricultural researches, and to review 06 research institutions. However, 51 researches had not been conducted, and 05 research institutions had not been reviewed.

4.2 Management Activities

The following observations are made.

- (a.) An expenditure of Rs. 2,404,427 had been incurred by the Council on the installation of hardware and software during the preceding years by utilizing technology for achieving its objectives effectively and productively. Nevertheless, it was observed in audit that those systems had not been made use of in execution of the functions of the Council.
- (b.) Although advertisements had been published in 02 English newspapers on 23, and 26 November 2014 to make recruitments for 09 posts, no recruitments had been made by conducting interviews even by 12 May 2016, the date of audit.

4.3 Uneconomic Transactions

An Internet connection with a minimum cost had not been obtained for use of the officers requiring the Internet facilities based on the requirements of the Council. Instead, a leased line had been obtained from Sri Lanka Telecom for a monthly rental of Rs. 56,120 in the preceding year by incurring a sum of Rs. 1,836,027, and a sum of Rs. 673,440 had been incurred thereon in the year under review.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

A draft Annual Report had not been furnished together with the financial statements for the year 2015 in terms of Public Finance Circular, No. PF/PE/21 dated 24 May 2002.

5.2 Action Plan

Approval should have been obtained by presenting the Action Plan for the year under review to the Board of Directors by the commencement of the year. However, the Council had presented the Action Plan for approval on 06 November 2015.

5.3 Internal Audit

The Council had not established an Internal Audit Unit, and internal audit functions had been assigned to the Ministry of Agriculture. Even though an internal audit programme had been prepared for the year under review, an internal audit had not been carried out.

5.4 Budgetary Control

As variances ranging from 20 per cent to 99 per cent were observed in comparing the budgeted capital expenditure with the actuals, the budget had not been made use of as an effective instrument of management control.

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.

Areas of Systems and Controls

Observations

(a) Financial Administration	Delays in making requests for Recurrent and Capital grants given by the Treasury.
(b) Stocks Control	(i) Failure to record the G.R.N. numbers used for recording the receipts of stocks.
	(ii) Issuance of stocks without an adequate authority.
	(iii) Recording the issue of consumer goods in the Stock Registers.