

Sri Lanka Hadabima Authority – 2016

The audit of financial statements of Sri Lanka Hadabima Authority for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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

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

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 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

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 Hadabima Authority as at 31 December 2016 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

As useful life of the non-current assets had not been reviewed annually as required by Sri Lanka Public Sector Accounting Standard 07, fixed assets costing Rs.5,679,700 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in estimation in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Policies

The following observations are made.

- (a). In terms Section 69 of Sri Lanka Public Sector Standard 7, depreciation of an asset should be commenced from the beginning of its use, whereas, the Authority had followed a depreciation policy contrary to the above requirement.
- (b) In terms of Sri Lanka Public Sector Accounting Standard 09, the Authority had not disclosed the accounting policy adopted including basis of the measurement and the cost formula used in connection with the stock of Rs.6,788,124 in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Salaries amounting to Rs.2,999,102 , a sum of Rs.89,973 payable to Employees Provident Fund and a sum of Rs.359,892 payable to the Employees Trust Fund as at 31 December of the year under review had been understated in the accounts.
- (b) Due to errors in the computation, expenditure on gratuity and provision for gratuity amounting to Rs.270,527 of the year under review had been overstated in the accounts.

- (c) Communication Deposit valued at Rs.5,000,000 cancelled on 17 January 2017 had been debited to the cash book by considering the same had been cancelled on 31 December 2016 and as such, investments had been understated by that amount and bank and cash balances had been overstated by that amount in the accounts.
- (d) Interest of Rs.105,548 as at 31 December 2016 relating to the fixed deposit valued at Rs.5,000,000 of the Authority had not been brought to accounts.

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following items of accounts had not been presented to audit.

Item -----	Value ----- Rs.	Evidence not made available -----
Buildings	228,550	Documents in support of title and the physical existence
Balance Receivable	287,188	} Balance confirmations
Balance Payable	595,488	

2.2.5 Unexplained Differences

A difference of Rs. 398,476 was observed between the accounts and the schedules maintained by the Authority and the Marketing Division in 04 instances.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Thirty seven balances receivable valued at Rs.219,232 remained unsettled as at 31 December of the year under review and those balances related to the period ranging from 01 years to 07 years.
- (b) Action had not been taken to recover 06 staff loan balances of Rs.115,562 that remained unrecovered from 06 officers for more than a period of one year.
- (c) Staff loan balance of Rs.239,533 due from an officer who had left the service of the Authority had not been recovered either from the relevant officer or the guarantors.
- (d) Four balances valued at Rs.609,727 had remained unsettled as at 31 December of the year under review and those balances related to a period ranging from 01 to 10 years.
- (e) The unidentified balance of Rs.50,998 continued to exist in the Staff Loan Adjustment Account from the year 2014 and shown under the trade and other receivable balances in the statement of financial position as at 31 December of the year under review had not been settled even by August 2017.

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

The following observations are made.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulation 396 (d)	According to the Bank Reconciliation Statements prepared for the month of December of the year under review, action in terms of Financial Regulations had not been taken in respect of 207 cheques valued at Rs.775,500, lapsed for more than 6 months from the date of issue but not presented for payments.
(b) Public Administration Circular No.9/2009 dated 16 April 2009.	Even though a finger print machine had been in operation in the Institute, without being confirmed the arrival and departure by a printout obtained from the finger print machine, overtime and holiday pays amounting to Rs.1,817,943 had been paid based on the attendance register maintained under the officers.
(c) Public Finance Circular No.03/2015 dated 14 July 2015 of the Secretary to the Treasury.	(i) Ad-hoc imprest balance unsettled by 31 December 2016 amounted to Rs.607,984 and action had not been taken to settle it. (ii) Advance amounting to Rs.261,120 obtained by the officers of the institute in 30 instances during the year 2016 had been settled after a delay ranging from 14 days to 262 days on completion of the relevant purpose. (iii) Out of advances amounting to Rs.365,280 granted to 27 officers, a sum of Rs.226,070 had been settled again without being utilized and it had ranged from 28 per cent to 100 per cent.

- (d) Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003. Although the draft annual report should be furnished to the Auditor General within 60 days of the close of year, action had not been taken accordingly.

2.5 Transactions not Supported by an Adequate Authority

The following observations are made.

- (a) According to the Letter No.DMS/IE/14/05/115(VOL 1) dated 22 September 2011 of the Director General of the Department of Management Services, it had been informed to formulate an appropriate methodology for the payment of efficiency incentives and submit the same for the approval again. Nevertheless, without being taken action to obtain approval of the Department of Management Services even by 31 March 2017, efficiency incentives amounting to Rs.619,440 had been paid for the year 2016.
- (b) Management had failed to formulate methodologies and criteria in respect of sums totalling Rs.506,457 comprising Rs. 469,457 credited from the Fund of the institute from September 2011 to 31 December 2016 for the Risk Deposit Fund of the institute established on behalf of the employees of the Marketing Division for incurring expenditure to face risk conditions and a sum of Rs.37,000 due to be further credited and to obtain the approval of the Treasury thereon.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year under review had been a surplus of Rs.1,359,802 as compared with the corresponding surplus of Rs.798,108 for the preceding year, thus indicating an improvement of Rs.561,694 in the financial result as compared with the preceding year. Increase in the Treasury recurrent receipt by Rs.1,639,421 had mainly attributed to the above improvement in the financial result.

Analysis of the financial results of the year under review and 04 preceding years revealed that the deficit of Rs.32,601,898 in the year 2012 had turned out to a surplus of Rs.23,704,832 in the year 2013. Although a surplus was observed from the year 2014 to the year 2016, a decrease of that surplus was observed as compared with the year 2013. Nevertheless, in readjusting the employees remuneration, depreciation for the non-current assets to the financial result, the contribution of the Authority amounting to Rs.9,746,179 in the year 2012 had become a sum of Rs.72,492,946 with fluctuations.

3.2 Legal action instituted against and by the Authority

External parties had filed 04 cases against the Authority in Court while the Authority had filed a court case against a former employee in order to recover a sum of Rs.40,178 for misuse of resources of the Authority.

4. Operating Review

4.1 Performance

The objectives of the Authority according to the Agricultural Corporations Act, No. 11 of 1972 are indicated below.

- (a) Agricultural diversification, settlement development and preparation of plans for fully connected watershed management, coordinating and implementing those plans by the Corporation or Government or Nongovernment agencies in areas determined by the Minister from time to time.
- (b) Management of all the lands alienated or vest in the Corporation, maximum yield, protection of environment, conservation of lands and water resources and settlements development with the objective of establishment.
- (c) Processing and sale of agricultural products.
- (d) Establishment of plant, equipment and machineries for the agricultural diversification and settlement development, their maintenance and operations.
- (e) Implementation of all steps that deemed necessary for the implementation of agricultural diversification in the specific areas referred to in Paragraph (a) above, settlement development and watershed management.

The following observations are made on the achievement of those objectives.

- (i) Activities such as agricultural diversification, settlement development and processing of agricultural production had not been carried out during the year.
- (ii) Although a sum of Rs.57,650,130 had been granted by the Treasury for the development activities, in addition to that amount, the institute had invested a sum of Rs.5,588,163 and soil conservation activities only had been carried out. Attention had not been drawn on the other development activities stated in the Act.
- (iii) Out of the estimated amount of Rs.350,000 for planning and progress reviewing, only the activities amounting to Rs.101,144 or 29 per cent had been done.
- (iv) Although a higher progress is observed in taking into consideration the overall targets and the overall progress, soil conservation activities of 584.64 hectares of lands in 25 Grama Niladharee's Divisions had not been carried out.

4.2 Management Activities

The following observations are made.

- (a) The objectives for the maintenance of deposit balances of Rs.2,081,413 continued to exist relating to 03 accounts from the year 1978 were not explained to audit.
- (b) Although daily accumulated cash in the stall should be deposited in the bank immediately, amount of cash ranging from Rs.162,425 to Rs.1,111,401 had been retained in hand in 12 instances from 30 December 2016 to 10 January 2017. A limit of cash that should be retained as petty cash imprest to spend as petty cash had not been approved by the Management.
- (c) Although development programmes should be implemented under the labourer contribution of the students and the parents, deviating from that, a sum of Rs.641,209 had been paid for the modals prepared in 40 schools and a sum of Rs.178,910 had been paid relating to 11 soil specimens to external parties.
- (d) Although only a sum of Rs.575,000 out of the sums totalling Rs.1,739,764 overpaid in the years 2014 and 2015 in respect of vegetables not supplied to the stalls had been recovered from the parties responsible, adequate steps had not been taken to recover the balance of Rs.1,164,764.
- (e) A government quarter in which an officer of the Authority was residing was a quarter belonging to another Ministry and it had not been properly taken over.

4.3 Operating Activities

The following observations are made

- (a) The wastage value comparatively to the purchases of the Gannoruwa and Ampara stalls had been Rs.1,899,383 or 2.3 per cent and Rs.302,418 or 17.8 per cent respectively and the wastage value of the Ampara stall stood at extremely high amount as compared with the Gannoruwa stall.
- (b) The Pallekele and Kothmale farms had sustained losses of Rs.1,326,129 and Rs.74,999 in the year 2015 and Rs.219,382 and Rs.153,649 in the year 2016 respectively. Nevertheless, attention had not been drawn to reorganise the farms in to a position of generating profits by preparing a business plan as required by the Paragraph 07 of the Letter No.04/04/07 dated 04 March 2015 of the Secretary to the Ministry of Irrigation and Agriculture.

4.4 Idle and Underutilized Assets

The following observations are made

- (a) Agricultural equipments valued at Rs.716,170 older than 05 years and purchased for various projects had been kept in the stores even by 05 January 2017.
- (b) The total land area of 10 acres in extent of the Pallekele Farm had not been utilized effectively.
- (c) Although goods valued at Rs.124,707 had been purchased for the Weligama stall in November and December,2016, action had not been taken to open the relevant stall even by 30 June 2017 and the above goods remained idle.
- (d) The stalls building at Ingiriya had been partly built by spending a sum of Rs.5,442,792 under the expenditure head of Development in the year 2014, whereas action had not been taken to use it by completing the construction activities even by 31 January 2017.

4.5 Contract and Procurement Process

The following observations are made.

(a) **Ingiriya Stall**

- (i) Payments valued at Rs.105,100 had been made to the contractor in respect of undone 04 items of works.
- (ii) Without being established the availability of provisions in terms of Guideline 4.1.1 (c) of Chapter 04 of the Procurement Guidelines 2006, construction valued at Rs. 1,223,499 of the lavatory system of the sale centre had been commenced on 07 August 2014 and it had been partly built, whereas construction had been abandoned half way even by June 2017 due to lack of funds.
- (iii) Even though an estimate amounting to Rs.16,570,000 had been prepared for the construction activities of the stall built for the sale of vegetables and agro materials under 09 stages and that estimate had been approved, a plan had not been prepared for procuring further needed funds of Rs.10,570,164.
- (iv) In order to carry out construction activities of the stall under 4 stages, estimates for the value totalling Rs.6,478,698 had been prepared. Out of that, bids had been called only for 03 stages and constructions of the 04 stages had been awarded to the only bidder.

(b) Weligama Stall

- (i) Walls of the stall building handed over to the Authority on 18 October 2015 after partly completing by spending Rs. 8,062,196 under the Provincial Development Programme, 2014 and Rs. 2,112,501 by the Hadabima Authority had been cracked in several places and anthills had been formed by termites in some places. Action had not been taken to repair the building and commence the business activities even up to 27 March 2017.
 - (ii) Payments had been made for 03 undone work amounting to Rs. 44,086 stated in the bill.
 - (iii) Even though a sum of Rs. 150,132 had been paid for the powder coated glass doors, only powder coated had been used and glass had not been fixed for the doors.
- (c) A performance guarantee had not been obtained according to the Guidelines 5.4.10 and 8.9.1 (b) of the Procurement Guidelines in respect of purchase of goods valued at Rs. 1,081,657 and relating to cleaning service of Rs. 528,700 in the year 2016 and a written agreement, too, had not been entered into.

4.6 Commencement of projects in lands/properties not properly vested

In 02 lands belonging to the Ingiriya Divisional Secretariat and Weligama Divisional Secretariat which had not been properly taken over even up to 30 June 2017, two stalls had been constructed by spending Rs. 5,442,792 and Rs. 10,174,698 respectively.

4.7 Staff Administration

The following observations are made.

- (a) For the post of Technical Assistant approved by the Letter No. DMS/1578 dated 15 June 2015 of the Director General of the Department of Management Services, recruitment had not been made even up to 31 March 2017 and the recruitment of scheme, too, had not been approved.
- (b) Despite the expiry of the period of contract of 04 officers recruited on contract basis, a sum of Rs. 2,203,880 had been paid as gross salary for the period from November 2015 to March 2017 without an agreement and granting extension.
- (c) Without obtaining the approval of the Department of Management Services, two officers had been recruited for the posts of Financial Officer and Watcher which had not been included in the approved cadre and a sum of Rs. 409,945 had been paid as salaries up to 28 February 2017.

- (d) Deviating from the Financial Regulation 71 (i) (b), six officers had been recruited under the sales project by changing the designation as Bill Collecting Officer and including it to the 21 approved post of Sales Assistant, a sum of Rs.1,756,754 had been paid as salaries within the year 2016.

4.8 Vehicle Utilization

The following observations are made.

- (a) Although a period of more than one year had elapsed from the grant of approval to vest 10 hand tractors valued at Rs.1,120,000 in the farmers' societies according to the Letter dated 15 July 2015 of the Secretary to the Ministry of Agriculture, action had not been taken to vest those tractors.
- (b) Although a lorry costing Rs.900,000 of which the legal right is held by the Ministry of Agriculture had been shown in the financial statements, action had not been taken to transfer the ownership thereof.

5. Accountability and Good Governance

5.1 Action Plan

An Action Plan for the Sales Project pertaining to the year under review had not been prepared in terms of Paragraph 5.2 of the Public Finance Circular No.01/2014 dated 17 February 2014.

5.2 Procurement Plan

The following observations are made.

- (i) Although the Procurement Plan should be prepared and approved before the commencement of the relevant year, the Procurement Plan for the year under review had been approved by the Secretary to the Ministry on 31 March 2016 and the revised Procurement Plan had not been approved by the Secretary to the Ministry. Goods valued at Rs.1,832,698 not included in the approved Procurement Plan had been purchased.
- (ii) A Main Procurement Plan for the Authority had not been prepared at least for a period of three years in terms of Guideline 4.2 of the National Procurement Guidelines 2006 and a procurement time table in terms of the National Procurement Guidelines had not been prepared for the Procurement Plan valued at Rs.41,900,000 prepared for making purchases in respect of the Marketing Project.

5.3 Internal Audit

The approved cadre of the Internal Audit Division of the Sri Lanka Hadabima Authority consisted of only one officer and a plan had been prepared to carry out 33 activities under 09 fields using 3900 man hours in respect of internal audit. Nevertheless, only 14 audit queries had been issued so as to cover 06 activities for the year under review and those had been referred to the Auditor General. Although a sum of Rs.63,238,292 had been spent for the development expenses, one audit query only had been issued in that connection.

5.4 Budgetary Control

The following observations are made.

- (a) A budgeted statement of financial position, cash flow statement, Action Plan and budgeted capital expenditure report had not been furnished together with the Budget Estimate as required by Paragraph 5.2.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003 of the Director General of Department of Public Enterprises.
- (b) In terms of Paragraph 5.2.5 of the above circular, the updated final budget report had not been furnished to the Auditor General 15 days before the commencement of the year and a drafted budget report in terms of Paragraph 5.2.4 had not been furnished to the Board of Directors 03 months before the commencement of the year.
- (c) For the revision of 07 items of expenditure valued at Rs.1,888,500 included in the Budget Estimate of the Hadabima Authority of the year under review, approval had been obtained on 22 January 2017.
- (d) According to the above observations, it was revealed that the budget had not been made use of as an effective instrument of financial control.

5.5 Unresolved Audit Paragraph

Although in connection with a sum of Rs.2,094,280 recoverable from the Land Reformation Commission since the period prior to the year 2004 and shown under the other receivable balances in the statement of financial position, attention had been paid at the Committee on Public Enterprises held in the year 2010 and directives had been issued to settle it, it had not been settled even by 31 December of the year under review.

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 Authority from time to time. Special attention is needed in respect of the following areas of systems and controls.

Area of Systems and Control	Observations
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(a) Accounting	Failure in properly following the accounting policies and standards.
(b) Accounts Receivable and Payable	Failure in taking an appropriate step to settle the loan balances continued to exist over a number of years/ absence of balance confirmations.
(c) Contract Administration	Existence weaknesses in the preparation of estimates.
(d) Staff Administration	Making recruitments to the unapproved posts and failure to take action to fill vacancies.
(e) Vehicle Control	(i) Failure to establish a proper method for the control of vehicles. (ii) Failure to prepare monthly summaries.
(f) Internal Audit	(i) Failure to take action to fill vacancies. (ii) Failure to take action in accordance with the Internal Audit Plan.
(g) Procurement Process	Failure to take action in accordance with the Procurement Guidelines.
(h) Budgetary Control	Non-preparation of the Budget and not using as the instrument of financial control.
(i) Assets Management	Existence of Idle/ Underutilized Assets.