

Sri Lanka Council for Agriculture Research Policy – 2016

The audit of financial statements of Sri Lanka Council for Agriculture Research Policy for the year then ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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

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 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 judgment, 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. Sub-sections (3) and (4) of the 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Sri Lanka Council for Agriculture Research Policy 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

The following instances of non-compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard 01

Even though assets and liabilities and income and expenditure should not be set-off unless requested or permitted by Sri Lanka Public Sector Accounting Standards, current liabilities amounting to Rs.73,089 had been set-off against current assets and the net value had been stated in the financial statements.

(b) Sri Lanka Public Sector Accounting Standard 07

- (i) Even though it had been stated that the depreciation of an asset should begin when it is available for use in terms of Section 69 of the Standard, not depreciating the assets purchased in the month of December of the year of consideration had been the Depreciation Policy of the Council.
- (ii) Even though property, plant and equipment costing Rs.20,675,030 had been fully depreciated, they had been further used due to not annually reviewing the useful life of the non-current assets. As such, action had not been taken to rectify the error occurred in estimating the depreciation rates in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

Depreciation relating to Computer Software had been understated by a sum of Rs.206,244 and depreciation had been understated by a sum of Rs.17,677 in the year under review on not depreciating 7 items of assets from the date of use in the financial statements of the year under review due to calculation errors.

2.2.3 Unexplained Differences

The balance according to the Schedule on the allocation of Remunerations had been a sum of Rs.6,609,102 and a difference of Rs.1,705,748 was observed on the balance according to the statement of financial position being a sum of Rs.8,314,850.

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 2016 had resulted in a surplus of Rs.2,434,932 as compared with the corresponding surplus of Rs.3,594,269 for the preceding year, thus indicating a deterioration of Rs.1,159,337 in the financial result in the year under review as compared with the preceding year. The increase of communication expenses by a sum of Rs.584,236 and the repair and maintenance expenses by a sum of Rs.362,265 in the year under review had been the main reasons for this deterioration.

In analyzing financial results of 04 preceding years and in the year under review, even though a net loss had indicated from the year 2012 to the year 2014, a net profit had been indicated from the year 2012 to the year 2015. But, the net profit amounting to Rs.3,594,269 had been decreased up to a sum of Rs.2,434,932 in the year under review. However, in adjusting personnel emoluments and depreciation on non- current assets again to the financial result, the contribution of the Institution amounting to Rs.16,607,312 had been continuously improved and had been a sum of Rs.31,304, 479 in the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Even though ensuring effectiveness, profitability and sustainability of the industrial sector through economically effective, environmental- friendly and socially recognized agricultural research with strong inter- institutional co-operation and ensuring National Food Security had been the key functions of the Council, it was observed that the Council had not been able to achieve those functions sufficiently on not obtaining the necessary provisions on time for the achievement of those functions.
- (b) A sum of Rs.8,796,700 had been received as Research Grants in the year under review and 04 programmes out of 13 programmes planned according to the Action Plan had not been implemented. Moreover, the physical progress of programmes such as identifying national agricultural research policy priorities, reviewing on the progress of national agricultural research policies and research programmes, facilitating for excellence in agricultural research activities, arranging for inter- institutional agricultural research projects remained at a low level of 39 per cent, 23 per cent, 25 per cent and 33 per cent respectively.

4.2 Management Activities

A total sum of Rs.338,670 had been paid in 3 instances to purchase 01 Fax Machine, 01 Multi Media Projector and 01 Photo Copy Machine necessary for the Institution by following the Procurement Process in 3 instances in the month of December in the year under review and action had not been taken to make purchases at once in a planned manner and in a manner which reduces cost and time, in the purchase of these machines.

4.3 Personnel Management

Even though the post of the Deputy Director (Research Management) of the Council remained vacant from the year 2013 and the post of Network Administrator remained vacant from the date of inception of that post, 26 February 2014, action had not been taken to recruit even up to the date of audit of 30 May 2017.

5. Accountability and Good Governance

5.1 Presentation of Annual Reports

A Draft Annual Report had not been furnished to the Auditor General within 60 days from the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003.

5.2 Budgetary Control

Variances ranging from 20 per cent to 1939 per cent were observed in comparing the expenditure of 36 budgeted items of the year under review and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

The 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

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| (a) Personnel Administration | Non- compliance with the recruitment procedure. |
| (b) Procurement Process | Properly preparing and implementation and not planning in a manner which reduces cost and time. |
| (c) Financial Control | Not following Sri Lanka Public Sector Accounting Standards. |
| (d) Operating Control | Non- implementation of successful research as solutions to the problems relating to the field of Agriculture. |