

Hadabima Authority of Sri Lanka – 2017

The audit of financial statements of Hadabima Authority of Sri Lanka (“Harita Danau Bim Sanwardhana Madyama Adhikariya”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 the amendments made by the Gazette Extraordinary Notification No. 2026/45 of 07 July 2017 to the 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was sent to the Chairman of the Authority on 17 May 2018.

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 Hadabima Authority of Sri Lanka (Harita Danau Bim Sanwardhana Madyama Adhikariya) as at 31 December 2017 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 observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

Only the assets expected to be realized or the liabilities due to be settled within the 12 months after the reporting date should be classified as current assets and current liabilities in terms of 76 (c) and 80 (c) of the Standard. Nevertheless, the staff loan amounted to Rs. 23,535,616 remained as at 31 December in the year under review had not been classified as current and non-current and the provision for gratuity amounted to Rs. 1,397,363 which is realized within 12 months had been shown under non-current liabilities.

(b) Sri Lanka Public Sector Accounting Standard 03

The accounting policy for the depreciation of the Authority had been changed in the year under review and the effect occurred accordingly should be adjusted to the financial statements retrospectively. Nevertheless, the effect occurred due to the changes in accounting policies had been brought to accounts retrospectively only for a part of assets remained as at 31 January 2017 by the Authority and actions had not been taken accordingly in respect of the depreciation relating to the assets valued at Rs. 10,851,120 .

(c) Sri Lanka Public Sector Accounting Standard 07

When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued in terms of Paragraph 49 of the Standard. Nevertheless actions had not been taken to revalue the 3 vehicles cost at Rs. 1,462,100 while revaluing the vehicles belonging to the Authority.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the amount to be recovered from the parties liable in respect of the cash fraud occurred in the sales division in the years 2014 and 2015 was Rs. 1,121,740 and that amount had been shown in the financial statements as Rs. 1,899,508.
- (b) As a result of depreciation made further in Rs. 215,544 for the year 2017 for the motor cycles which were fully depreciated as at 31 December 2016, the depreciation relating to the year under review overstated by that amount and the net value of the plant property and equipment had been understated by the same amount.
- (c) Even though the value of the fixed deposits as at 31 December for the year under review was Rs. 13,441,694 , as a result of appearing that as Rs. 13,723,193 in the statement of financial position the value of fixed deposit had been overstated by Rs. 281,499.
- (d) Even though the assets in net value of Rs. 36,860 purchased from the capital grant had been sold, actions had not been taken to remove that value from the capital grant account.
- (e) Even though the direct credits amounting to Rs. 11,500 and direct debits amounting Rs. 8,000 shown in the month of October 2017 bank reconciliation statement which was last prepared relating to a current account of the Authority ,actions had not been taken to bring in to accounts identifying those balances .

2.2.3 Unexplained Differences

The following observations are made.

- (a) Even though a sum of Rs. 9,272,946 had been shown in the accounts of the Authority as loans payable to the Sales Division , as result of appearing as Rs. 9,609,773 under the balances receivable in the Sales Division a difference of Rs. 336,827 was observed.
- (b) Even though according to the financial statements of the Land Reform Commission as at 31 December in the year under review a sum of Rs. 54,912,000 had been shown as receivables , a balance payable had not appear as per the financial statements of the Hadabima Authority and a sum of Rs. 2,094,280 had been shown as the balance receivable from the Land Reform Commission .

2.2.4 Lack of Evidence for Audit

Within the balance of Reserves shown in the financial statements amounted to Rs. 64,947,902 , a balance of Rs. 2,081,413 relating to 03 accounts which has been continuously remained since 1978 and the objectives of carrying out of those Reserves were not furnished to audit. Similarly, actions had not been taken to settle those balances during the year under review.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The balance of the Staff Loan Adjustment Account amounted to Rs.50,998 shown in the financial statements as a receivable balance from the year 2015 had not been settled even by 31 December 2017.
- (b) The balance of trade and other receivables according to the financial statements was Rs. 41,864,292 and 39 receivable balances amounting to Rs. 169,838 related to a period ranging from the year 1 to year 10 included in that had not been settled even by the 31 December year under review.
- (c) Actions had not been taken even during the year under review to recover a sum of Rs. 367,581 which should be recovered from 13 officers who had resigned from the service as at 31 December in the year under review and the loan balances amounting Rs. 111,047 receivable from two employees who were interdicted and left the service.

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

Actions had not been taken in terms of Financial Regulation 396 (d) of Financial Regulations of Democratic Socialists Republic of Sri Lanka in respect of the 307 cheques issued but not presented to the bank over 6 months amounted to Rs. 2,328,439 as at 31 December in the year under review.

2.5 Transactions not Supported by an Adequate Authority

Even though according to the Letter No. DMS/ EI /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, without being taken action, efficiency incentives amounting to Rs.397,006 had been paid for the year 2017.

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.684,322 as compared with the corresponding surplus of Rs.1,359,802 for the preceding year, thus indicating deterioration of Rs.675,480 in the financial result as compared with the preceding year. Decrease of the surplus of the Sales Division by Rs.1,527,490 had mainly attributed to the above deterioration in the financial result.

Analysis of the financial results of the year under review and 04 preceding years revealed that the surplus of Rs.23,704,832 had continuously decreased to Rs. 798,107 by the end of the year 2015. Nevertheless, it had increased up to Rs. 1,359,801 again in the year 2016 and again decreased to Rs. 684,322 in the year under review. However, in readjusting the employees remuneration, depreciation for the non-current assets to the financial result, even though the contribution amounting to Rs.67,807,816 in the year 2013 had fluctuated it had increased up to Rs.73,010,089 to the end of the year 2017.

3.2 Legal action instituted against and by the Authority

Four employees who had employed in the institution had filed 04 court cases against the Authority due to the vacated from their posts and the Authority had filed a court case against a former employee in order to recover a sum of Rs. 1,696,740 for a cash fraud in the Sales Division.

4. Operational Review

4.1 Performance

4.1.1 Planning

Action Plan

Even though the Authority had prepared an Action Plan for the year under review, in terms of the Paragraph 4 of the Public Finance Circular No. 01/2014 of 17 February 2014, the components and the activities related to the Sales Division which should be included in had not been entered in to the Action Plan.

4.1.2 Actions and Review

The following observations are made.

(a) Even though 05 main activities were assigned to the Authority in terms of the State Agricultural Corporations Act No. 11 of 1972, only the activities relating to soil conservation and water parting management had been carried out by incurring Rs. 55,600,000 for development activities during the year 2017 and attention had not been drawn for the activities such as agricultural diversification, preparation and sale of agricultural products, establishment of plant, equipment and machineries for the development of human settlements and maintaining and implementing them.

(b) Sales Project

Even though the Sales Project had been implemented with the objective of uplifting the agricultural products free from the poisons and providing higher prices to the farmer for rural agricultural products, a methodology was not available to check whether the selling agricultural products are free from the poisons and the agricultural products had been bought from the central market for the higher prices more than the prices of the rural agricultural products.

(c) The unfulfilled financial progress ranged from 24 per cent to 75 per cent in respect of the 05 activities in 03 projects as per the Annual Action Plan of the Authority.

(d) Even though a sum of Rs. 27,500,000 which was provided for two other projects had been transferred to the soil conservation out of the farm and Project for Disaster Water Management by making revisions to the Action Plan 2017, the financial progress as at 31 December 2017 of that Project was at a lower level such as Rs. 5,600,000 or a percentage of 20.

4.2 Management Activities

The following observations are made.

(a) The loss of the two Farms in Kotmale and Pallekelle from the year 2015 to the year 2017 was Rs. 1,166,612 and even though it had been instructed to take actions to make the farms profitable by preparing a monthly charge Business Plan identified specially for production and revenue for those 02 farms by the letter No. 07/04/04 of 04 March 2015 of the Secretary to the Ministry of Irrigation and Agriculture, action had not been taken accordingly even as at the date of this report.

(b) The approval of the Treasury should be obtained for the Welfare Schemes in terms of 9.12 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Nevertheless such an approval had not been obtained for the Fund of Risk Reserves established by the Authority and a sum of Rs. 613,581 had been credited for that Fund from the year 2011 to the 31 December 2017 by providing Rs. 250 per a working day. Further, a methodology or an indicator had not been prepared in respect of the payments done from that Fund.

4.3 Operating Activities

The following observations are made.

- (a) It was observed at the examination of the performance of the Sales Projects the portion of sales of vegetables by 15,681 kilograms , the portion of fruit sales by 12,178 kilograms, the sales of coconuts by 19,035 nuts had decreased and the sales of chicken had not been made in the year 2017 as compared with the year 2016. Further, the portion of sales in 06 categories of main sales items had decreased ranging between 09 per cent to 44 per cent .

- (b) The Hadabima Authority of Sri Lanka had not delegated the responsibilities to the relevant institutions in respect of the maintenance of soil conservation models for the development activities related to the year 2017 and follow- up actions with regard to that had not been carried out by the Unit Managers / Zonal Managers .

4.4 Idle and Underutilized Assets

A permanent building and the sales centre building constructed in the Pallekelle Farm by incurring a sum of Rs. 346,225 in the year 2005, Training Centre built in the Kotmale Farm by incurring Rs. 535,100 in the year 2011 and the land of the old stable of the Farm had not been utilized for any activity for a long period.

4.5 Commencement of Projects in the Lands / Properties not properly vested

A sales centre had been constructed incurring a sum of Rs. 5,999,835 in the year 2004 in a land which was not properly taken over by the Authority and that building remained in idle even by the month of May 2018.

4.6 Staff Administration

The following observations are made.

- (a) Even though 15 vacancies for 11 posts and 07 vacancies remained for 04 posts in Sales Project respectively as at 31 December 2017 under Hadabima Authority and Sales Promotion Project actions had not been taken to enroll officers for those vacancies. Further, without obtaining the approval for permanent staff for the activities of the two farms belonging to the Authority ,the functions of the Farm had been carried out from the officers approved to the Hadabima Authority.

- (b) Actions had been taken to recruit officers on Secondment Basis for 13 years from the year 2005 to the year 2018 for 02 posts in the higher management level and actions had not been taken to appoint officers on permanent basis for those posts.

- (c) Thirty per cent out of the provisions made available during the previous 05 years for the training of staff was remained underutilized and 03 employees in the Authority and 27 employees had covered the number of training hours less than 08 hours during the year 2017.
- (d) The post of sales assistant approved under the Sales Project had been changed as the Bill Collector and 21 officers had been recruited to that post without obtaining the prior authority from the Deputy Secretary to the Treasury in terms of Financial Regulation 71(i) (a) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

5. Sustainability Development

Even though all the government institutions should be functioned as per the Circular No. SP/SP/SPG/17 of 14 August 2017 issued by the Secretary of National Policy and Defense Affairs and the United Nations year 2030 “Agenda” for Sustainable Development , the Hadabima Authority of Sri Lanka had not aware of the way of implementing with regard to the activities entitled to the scope itself .

6. Accountability and Good Governance

6.1 Internal Audit

The Internal Audit Plan had not been prepared by the Internal Audit Division of the Authority in terms of the Paragraph 7 of the Management and Audit Circular No. DMA/2009 (i) of 09 June 2009. Further, only one officer had been assigned for the internal audit activities and the attention had not been drawn in respect of the system analysis, performance analysis and special investigation which should be conducted as per the Circular.

6.2 Procurement and Contract Process

6.2.1 Procurements

The following observations are made.

- (a) Bags for the usage of the sales centre had been purchased at a cost of Rs. 504,033 in contrary to the procurement Guidelines 2006.
- (b) Even though a Master Procurement Plan should be prepared at least for a period of three years in terms of Guideline 4.2 of the Procurement Guidelines , such a plan had not been prepared by the Authority . Further, even though procurement activities valued at Rs. 30,399,000 had been planned in respect of the year under review , a procurement time table had not been prepared in terms of the Guidelines 4.2.2 of the Procurement Guidelines .

6.3 Budgetary Control

The following observations are made.

(a) Action had not been taken to furnish the Budget Estimate with the budgeted statement of financial position, cash flow statement, and budgeted capital expenditure report together with the Action Plan 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) The approved Budget Report had not been furnished to the Auditor General and the General Treasury 15 days before the commencement of the financial year in terms of Paragraph 5.2.5 of the Public Enterprises Circular No. PED /12 dated 02 June 2003 .

6.4 Tabling of Annual Reports

Even though the Annual Report should be tabled in the Parliament within 150 days after the closure of the financial year in terms of 6.5.3 of Public Enterprises Circular No. PED /12 of 02 June 2003 , the Annual Report for the year 2016 had not been tabled in the Parliament even by the month of June 2018.

6.5 Unresolved Audit Paragraphs

Although in connection with a sum of Rs. 2,094,280 recoverable from the Land Reform Commission since the period prior to the year 2004, attention had been drawn at the Committee on Public Enterprises held in the year 2010 and directives had been issued to settle it, action had not been taken to resolve that even by 30 May 2018 .

6.6 Commitment to the Environment

Even though the Motto of the Hadabima Authority of Sri Lanka is “Save the Earth” , the disposals of the wastes of the Sales Centre carrying out by the Authority had been disposed to the Kotmale Farm without separating as decaying and non-decaying and it was further observed that the possibility of occurring environmental problems accordingly.

7. 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

Area of Systems and Control	Observations
(a) Accounting	Non- compliance with certain accounting standards
(b) Control of Accounts Receivable and Payable	Failure in taking an appropriate step to settle the loan balances continued to exist over a number of years .
(c) Staff Administration	Making recruitments to the unapproved posts and failure to take action to fill the vacancies.
(d) Internal Audit	Failure to take action in accordance with the Internal Audit Plan.
(e) Procurement	Take actions out of the terms in Procurement Guidelines.
(f) Assets Management	Failure in taking an appropriate procedures in respect of the idle and underutilized assets.