

Hector Kobbekaduwa Agricultural Research and Training Institute – 2017

The audit of financial statements of the Hector Kobbekaduwa Agricultural Research and Training Institute 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 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.

2. Financial Statements

2.1 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 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 Accounts Receivable and Payable

The following observations are made.

- (a) The debtors balance totaling Rs.577,716 coming from more than 5 years by the end of the year under review and follow up action for the recovery of this had been in a weak condition.
- (b) Action had not been taken to settle the credit balance amounting to Rs.338,053 coming from more than 5 years..
- (c) Canteen had been given to the external party by the entity on a rent basis and supplied the electricity and the accrued electricity bill of Rs.34,015 for the month of October, November, December 2017 had not been recovered.

2.3 Non-compliances with Laws, Rules Regulations and Management decisions

As per the Public Finance Circular No 438 of 13 November 2009, disposable goods in government offices should be disposed immediately, but unusable consumer goods amounting to Rs.197,496 which was stated under the stock in the Financial Statements. Action had not been taken as per the circular relating to this.

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. 2,732,399 as against the corresponding surplus of Rs.10,547,296 for the preceding year, thus indicting a decrease of Rs.13,279,695 in the financial result of the year under review. The decrease in the Government grants by Rs.19,380,000 had mainly attributed to the decrease of the financial result.

Analyzing the financial results of the year under review and 04 preceding years revealed that the financial result had become a surplus in the year 2016 despite the deficit in the years 2013 to 2015. However, when the employee remuneration and the depreciation on non-current assets had been adjusted to the financial result, the contribution for the year 2013 amounting to Rs.106,586,316 had continuously improved up to Rs.162,043,804 in the year 2016, but decreased to Rs.158,927,932 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Activities and Review

The following observations are made.

- (a) Fourteen projects had been started in the year 2015 and 2016 by spending Rs.10.33 million, Five projects should be completed before 31 December 2016 and nine projects before 31 December 2017. However, those research projects had not been completed even by 14 June 2018, due to that research results couldn't be given for the relevant field.
- (b) According to the Action Plan, provisions amounting to Rs.12.05 million had been made by the Institute to conduct 136 training programs under 07 subjects. However, only 55 programs scheduled to be under 03 subjects had been conducted during the year under review.
- (c) It had been planned to train 850 officers in 16 districts by conducting one day 17 programs relating to empowering the farmers under the National Food Production Programme. Instead of conducting that, 14 programmes had been held only in Polonnaruwa district and 1323 farmer's organization leaders had been trained.
- (d) It had been planned to train 60 development officers by conducting one day training Program but it had not been conducted. Instead of that a training program had been held and trained 88 students in Agriculture Faculty in University of Jaffna relating to Business Management of Agriculture and Marketing of Agriculture

4.2 Management Activities

The following observations are made.

- (a.) Director's official residence of the Institute had been given to the Coordination Secretary of the Ministry without having a proper transfer or charging quarter's rent. Electricity and water had been provided by the institute itself, but the charges for water and electricity were not recovered. Further, telephone bill amounting to Rs.33,607 from February to July 2017 had also been paid by the institute. On this situation Director of the institute residing in Registrar's quarters and suitable action had not been taken on this matter.

- (b.) Five rooms of the hostel belonging to the Institute had been provided for the security officers of the Agriculture Ministry, from May 2015 without charging any fees, Action had not been taken to taken back these rooms or to recover the rent due to the institute and it had deprived an income amounting to Rs.8,203,030 by the end of the year under review.
- (c.) An Agriculture program was held from 07 June - 24 June 2017 in China. Although the director level officers less than 45 years old should be participated to this program. Four officers over that age limit and not in the Director level had participated to the program. Though the program was relevant to Agriculture Officers, Librarian, Senior news and Publication officer and two lady officers in the account section had participated and a sum of Rs.915,580 had been paid as incidental expenses.
- (d.) As per Section 47 of Employees Provident Fund Act No. 15 in 1958 and Section 46 of Employees Trust Fund Act No.46 in 1980 when calculating the contribution for those funds from January 2006 to March 2013 cost of living allowance had not been included. As a result sum of Rs.1,041,662 had been paid as a surcharge.

4.3 Transaction of Contentious Nature

It was observed that the stores had received a cassette recorder, camera teak dinner table and an executive chair which were purchased in the year 2014 spending Rs.230,125. Those were not physically observed in the verification done by the audit in 18 May 2018. An inquiry had not been carried out by the management in regarding this.

4.4 Idle and Underutilized Assets

The Bio Gas unit which had been installed in the period 2012 to 2015 incurring a cost of Rs.1,031,020 was not in operation from 2016 and action had not been taken to repair this.

4.5 Staff Administration

The following observations are made.

- (a.) The approved cadre of the Institute had been 235, and 73 vacancies existed by the end of the year under review. Among those vacancies post of Registrar, a senior level position had remained vacant for more than 07 years from 03 January 2011. Due to this reason had become a problem to settle the administrative matters of the institute.
- (b.) A sum of Rs.54,449 had been spent for the paper advertisement on 07 October 2016 to recruit the administrative Officer for the institute and it had been decided to select an officer internally for that post. Therefore the expenses incurred for the paper advertisement had become fruitless. As per the internal recruitment procedure to fill this vacancy there should be a 05 years' service period in the field of management assistant service, but an office who doesn't have this qualification had been appointed effective from 15 June 2017 without having an approval of the Board of Directors.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Institute had a knowledge about the United Nation year 2030 "agenda" of Sustainable Development Goals and identified the goals and targets, but not identified the indicators to measure and reach to based on those goals.

6. Accountability and Good Governance

6.1 Budgetary Control

As variances ranging from 15 per cent to 101 per cent had been observed in comparing the budgeted income and expenditure with that of actuals for the year under review that the budget had not been made use of as an effective instrument of management control.

6.2 Unresolved Audit Paragraphs

Inadequate attention had not been made to unresolved audit paragraphs, pointed out in the previous audit reports and there are shown below.

Year	Paragraph No	Paragraph
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2013	5.2(c)	A sum of Rs.15,657,898 had not been recovered from the scholarship holders studied for Post Graduate Courses in foreign Universities and who had breached agreements.
2015	4.2(b)	The Assistant Registrar (administrative) had been interdicted due to a financial misappropriation and he had been reinstated. The Board of Control had ordered a fresh preliminary investigation to be conducted by cancelling the investigation already conducted. Further, this officer had been appointed for the post of the Acting Registrar before finalizing the inquiry.

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

Area of Systems and Controls

Observation

- | Area of Systems and Controls | Observation |
|-------------------------------------|--|
| (a.) Control of Operations | Failure to implement the research projects as planned. |
| (b.) Staff Administration. | Failure to fill the vacancies of the Institute. |