

## **Sri Lanka Council for Agriculture Research Policy - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Council for Agriculture Research Policy for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of comprehensive income, statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Council as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Council.

#### **1.4 Scope of Audit**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Accounting Deficiencies

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	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a)	The sum of Rs.49,213,526 spent for the participation of officers proceeded abroad for Postgraduate Degrees in Agriculture Research and short term workshops, had been shown as administrative expenditure in the financial statements instead of showing as operating expenditure.	I agree to state these expenditure under operating expenditure in the income statement in due course.	Action should be taken for accounting after classifying accurately as per the nature of expenditure.
(b)	Even though release of money for local agriculture researches and supervision is a normal function of the institute, the expenditure of Rs.12,135,933 incurred therefor had been brought to account as capital expenditure instead of operating expenditure.	Funds received from the Treasury for agriculture researches are released in the year 2019 as capital grants to show the expenditure incurred on the officers proceeded abroad for Postgraduate Degrees in Agriculture Research and short term workshops, as operating expenditure in stating income and expenditure as an adjustment of the preceding year. As such, it had been stated in the capital	-do-

notes as funds received for researches. However, I agree to present the effect pertaining to the recurrent expenditure as notes to Nominal Account in the statement of income and expenditure from the year 2019.

(c) The expenditure amounting to Rs.438,258 incurred on fixing curtains to the office building had been capitalized and as such, the profit and fixed assets of the year under review had been overstated by the same amount in the financial statements.

I agree to account the double entries pertaining to rectification of this error in the ensuing year.

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(d) Even though a total sum of Rs.12,214,980 had been amortized in the years 2016 and 2017 for the fixed assets valued at Rs.76,990,978 received from Treasury grants and transfers, amortization had not been made for the year 2018.

Out of the Deferred Fund identified pertaining to the value of purchases in the year 2018, only the amount of amortization relating the year 2018 has been adjusted to the profit as a deferred income.

Action should be taken to accurately identify the value of fixed assets and to amortize accurately.

According to the Sri Lanka Accounting Standard 20, a Deferred Fund should be established equal to the value of fixed assets in order to identify the amortization of relevant fixed assets as revealed under accounting of Government grants and Government assistance. Nevertheless, a deferred income relating to fixed assets has been brought to account by adjusting to the statement of income and expenditure without establishing a said Fund since the year 2011. However, due to the difficulty in finding out adequate information and data to establish a Deferred Fund which was not established in preceding years, a Deferred

Fund has been established only for the total value of purchases amounting to Rs.2,319,375 in the year 2018 as per the relevant Accounting Standard and the depreciation value of Rs.110,685 relating to the purchases of the year 2018 has been adjusted to amortization and further, it has been adjusted to the profit of the year 2018 as a deferred income.

- (e) The balance amounting to Rs.116,892 being the net value of computers, office equipment and books received as donations in the years 2010 and 2011, had not been amortized since the year 2015.

Even though it was revealed in the analysis of previous financial statements that these donations were not amortized since the year in which the former Accountant was interdicted, a basis for relevant amortization could not be revealed after his interdiction. As such, amortization had not been made therefor.

Action should be taken to amortize after being revealed a basis.

- (f) As action has not been taken to adjust an amount more than the grants received from the Treasury as expenditure and to adjust the amortization relating to the said grants in the financial statements accurately, the Fund Account of Treasury Grants had been a debit balance of Rs.6,468,925 as at the end of the year under review. No action had been taken to identify and rectify the said errors.

A sum of Rs.612,336.53 had been spent more than the amount received as capital grants in the financial year 2018 and it has been covered by the grants received for recurrent expenditure.

Action should be taken to identify and rectify the amortization relating to the grants received from the Treasury.

Even though it had been identified that the reason for the negative balance of treasury grants was the adjustment of amortization without establishing a Deferred Fund, adequate evidence to confirm it could not be revealed.

I wish to inform further that this matter is being looked into continuously.

## 1.5.2 Transactions not supported by Adequate Authority

<b>Particulars of Transactions not supported by Adequate Authority</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Even though the term of office of the Chairman of the Council was ended on 07 November 2018, a sum of Rs.197,600 had been paid as salaries and allowances for the months of November and December 2018.	As discussed at the Audit and Management Committee meeting held in the Ministry on 06 May 2019 , I expect to take future action based on the report to be submitted by the Additional Secretary in this connection.	Action should be taken against the officers who had approved erroneously.

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Section 16 of the Sri Lanka Council for Agriculture Research Policy Act, No. 47 of 1987	It is prescribed that, a Fund shall be established and the said Fund should credit the all sums of money received by the Council by way of loans, donations and grants while all expenditure incurred by the Council shall be paid out of the Fund. Nevertheless, the Fund had not been operated as mentioned above since the year 2015.	After the interdiction of the former Accountant, notes to accounts had not been entered in respect of the relevant Fund, while the basis for notes to accounts thereto could not be revealed. I agree to look into the matters pertaining to the Fund in due course.	Action should be taken in terms of the Act.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 26,420,267 as compared with the corresponding surplus of Rs. 5,432,733 for the preceding year, thus indicating an improvement of Rs. 20,987,534 in the financial result. The increase in Treasury grants had been the main reason for the said improvement.

### 3. Operating Review

#### 3.1 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Four tyres purchased at a cost of Rs.116,000 on 31 December 2016 without identifying the requirements, had not been used even by 15 May 2019, the date of audit.	<p>According to the approval of the Policy Council received for these 04 tyres not used, it had been instructed to restore those 04 tyres subjected to audit instead of the tyres using at present for the Cab bearing No.WPPC 3499 for which those tyres were purchased after having considered the use of tyres.</p> <p>Accordingly, I further informed that action will be taken to restore those tyres in near future as a distance of 38,726 km had been run as yet.</p>	Purchases should be made after identifying the requirements.

#### 3.2 Utilization of Resources owned by Other Organizations

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Action had not been taken as yet by the Council to vest the land where the building constructed at a cost of Rs.22,477,890 by the Sri Lanka Council for Agriculture Research Policy in the year 2012, was located.	According to the letter No.10/1/5 dated 01 August 1990 issued by a former Director, Mr.D.C.P.Senevirathna of the Hector Kobbekaduwa Agrarian Research Training Institute (at present HARTI ), approval has been given to vest the Lot No.1 and 2 of the plan of land No.54 of 1989 for the construction of the Head Office of the Sri Lanka Council for Agriculture Research Policy. According to our reports, the land belonging to the Hector Kobbekaduwa Agrarian Research Training Institute is a land granted under the Land Ordinance.	Action should be taken to vest the land in the Council.

### 3.3 Human Resource Management

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#### Audit Observation

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Even though 07 vacancies existed in the posts such as Senior Scientist, Research Officer, Librarian, Administrative Officer and Management Assistant over a period ranging from six months to two years, failure to fill those vacancies had been an impediment to perform the key functions of the Council.

Even though the Secretary of the Council should be over 35 years and not less than 55 years of age as per the Scheme of Recruitment, contrary to that, a retired officer over 60 years of age had been appointed.

#### Comments of the Management

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Initial steps has been taken to recruit the officers for the vacant posts of Research Officer, Librarian, Management Assistant(non-technical), Driver and approval of the Department of Management Services required for the recruitment of officers for the posts of Senior Scientist and Administrative Officer is being sought.

In terms of Section 4.1 and Section 12(I) of Part II of the Sri Lanka Council for Agriculture Research Policy Act, No. 47 of 1987, the Secretary of the Council shall be appointed by the Minister in charge of the subject.

According to the Scheme of Recruitment, the post of Director/Secretary is a post of the permanent staff of the Council.

Professor J.D.H. Wijewardhana who was subjected to the audit is a reputable retiree from the Government service who served as a former Director/ Additional Secretary to the Ministry of Agriculture.

As such, Mr. J.D.H. Wijewardhana who has acquired the qualifications stipulated in Section 4.1 of the Scheme of Recruitment has been appointed as the Secretary of the Council by the former Minister of Agriculture according to the powers vested in the Minister in charge of the subject under the said Act.

#### Recommendation

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Action should be taken to obtain the approval of the Department of Management Services.

Action should be taken as per the Scheme of Recruitment.