

1.1 Qualified Opinion

The audit of the financial statements of the Hadabima Authority of Sri Lanka (Sri Lanka Haritha Danaw Bim Sanvardana Adikariya) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the 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 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 accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Hadabima Authority (Sri Lanka Haritha Danaw Bim Sanvardana Adikariya) as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 determine 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, Authority 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 Authority.

1.4 **Audit Scope**

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 Company'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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 Authority and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority.
- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Noncompliance with the Sri Lanka Accounting Standards

Non-compliance with reference to the relevant standard	Comments from management	Recommendation
(a) Although the revaluation values should be accounted according to the paragraph 42 of the Sri Lanka Public Sector Accounting Standard 07 action had not been taken to matched in the financial statements the revaluation value of a Isuzu Lorry amounting Rs.3,500,000 which had revaluated in the last year.	It has been informed that will be corrected in the final account for the year 2020.	Actions should be taken according to the Sri Lanka Public Sector Accounting Standard.
(b) Although the Authority’s depreciation accounting policy had been changed in	It has been informed that it will be	The changings of the accounting

the year 2017, action had not been taken to state in the financial accounts by adjusting the effect of the depreciation policy changing retrospectively regarding the assets worth of Rs.10,851,120 out of the total assets as at 01 January 2017. Also a depreciation amount of Rs.681,900 had been allocated from the year 2015 to 2019 for a building which was not use from the year 2015.

corrected in the year 2020. policies must be adjusted in the financial statements as per the accounting standards.

1.5.3 Accounting Deficiencies

Audit monitoring	Comments from management	Recommendation
<p>(a) Although the payable for soil conservation was amounting to Rs.16,410,238 it had been under accounted that payable amount by an amount of Rs.1,311,129 so the deficit for the year had been understated by that amount.</p>	<p>It has been informed that it will be corrected in the year 2020.</p>	<p>Action should be taken to correctly account the accrued expense.</p>
<p>(b) The deficit for the year under review had been over stated by an amount of Rs.2,089,121 on the financial statements due to the accounting errors of under stating the gratuity allocation for the year under review by an amount of Rs.1,153,647 ,over accounted the audit fees for the year under review by an amount of Rs.2,707,268 and under accounted the authority's rent income by Rs.535,500.</p>	<p>It has been informed that corrective action will be taken in the year 2020.</p>	<p>Action should be taken to correct accounting deficiencies.</p>
<p>(c) Net cash flow spent on the purchase of biological assets and other assets had been over stated by an amount of Rs.2,481,857 under the investment activities on the statement of Cash flow.</p>	<p>It has been informed that corrective action will be taken in the year 2020.</p>	<p>Action should be taken to correct accounting deficiencies.</p>
<p>(d) Government grants and the fixed assets had been overstated on the financial statements by an amount of Rs.4,864,654 due to the accounting errors occurred when adjusting the fixed assets and the government grants by journal entries in the accounts.</p>	<p>Informed to be correct.</p>	<p>Care should be taken to indicate the correct values in the financial statements.</p>

1.5.4 Non reconciled control accounts or records

Subject	Value in terms of financial statements	Value according to the corresponding report	Difference	Comments from management	Recommendation
	Rs.	Rs.	Rs.		
(a) Bank cash balance	5,238,008	6,968,363	1,730,355	It has been informed that it will be corrected in the year 2020.	Relevant changes should be checked and adjusted in the accounts.
(b) Final stock	5,856,664	4,167,254	1,689,410	It has been informed that it will be corrected in the year 2020.	Identify differences and work to make adjustments.

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

Reference to rules, regulations, regulations, etc.	Non-compliance	Comments from management	Recommendation
(a) Financial Regulations Code of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 103 and 110	Although there were the total damage to the plants at Kotmale and Pallekele farms was amounting to Rs.469,157 and the damage to the Pallekele farm of killed chickens and ducks worth of Rs.635,959 and eggs was wasted , but action had not been taken in this regard as per the Financial Regulations.	It has been informed that action will be taken to rectify the situation.	It should be follow the provisions of the Financial Regulations.
(ii) Financial Regulations 371 (2) (b)	Advance amount of Rs.2,524,626 over the limitations had been granted without obtaining the prior approval from the treasury	It has been informed that it has been released to the Divisional Secretariats.	-those-

when exceeding the immediate interim interest limit of Rs.100,000.

(iii) Financial Regulations 396 and Circular No. 06/2016 dated 06th October 2016 of the Secretary to the Treasury	Action had not been taken according to the financial regulations and the provisions of Circular regarding 157 checks total worth of Rs.1,050,321 which had issued but not presented to the bank for payments	It has been informed that action will be taken to rectify the situation.	Must comply with financial regulations and circular provisions.
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(b) of the Public Enterprises Circular of No. 12 Dated on 02 June 2003

(i) Paragraph 7.4.4	Although a training committee should be appointed for assess the needs of the training to institute for get ready to the institute's future changings and develop the employee effectiveness, the actions had not been taken accordingly. And an assessment had not been carried out regarding the amount of Rs.3,702,821 which had expended on the human resource development within the last 05 years.	It has been informed that action will be taken to rectify the situation.	Actions should be taken according to the circular provisions of the circular.
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(ii) Paragraph 5.1.3	Although the updated compound plan should be presented with the updated annual budget by appointing the board of directors before at least 15 days for starting another financial year, actions had not been taken accordingly.	It has been informed that action will be taken to rectify the situation.	-those-
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(iii) Paragraph 6.5.3	Actions had not been taken to present the annual reports from the year 2016 to the year 2018 to the parliament until 20 August 2020.	To It has been informed that action will be taken to rectify the situation.	-those-
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2. Financial Review

2.1 Financial results

The financial result of the Authority for the year under review was a surplus of Rs.6,173,376 and the corresponding deficit for the previous year was Rs.6,340,444 Accordingly, the increase of financial result of the year under review was amounted to Rs.12,513,820 as compared. This excess was mainly caused by the increase the revenue of the authority by an amount of Rs.4,247,766 and decrease the expenditure by an amount of Rs.8,266,055.

3. Operational Review

3.1 Management inefficiencies

	Audit monitoring	Comments from management	Recommendation
(a)	Although it had been informed as the Ingiriya market which was constructed at a cost of Rs. 5,568,974, was handed over to the Ingiriya Divisional Secretary and removed from the books , but it had been remained inactive until 30 July 2020 .	It had been informed that the relevant letters have been sent for the transfer.	Action must be taken to transfer or utilize.
(b)	Although it had spent a sum of Rs.1,031,114 for Weligama store the management had been failed to earn evenue until the year under review.	It has been informed that action has been taken to obtain the assessment reports of the government.	Action should be taken to obtain revenue.
(c)	Although the loss of the both farms of Pallekale and Kotmale was amounting to Rs.9,933,656 from the year 2015 to 2019 action had not been taken to appoint those farm as obtaining profits by preparing a business plan with monthly sub dividing and identifying the production and revenue specifically for both farms according to the letter No.04/04/07 dated on 04 March 2015 of the secretary of the Minister of Irrigation and Agriculture.	It has been informed that action will be taken in the future.	Work should be done according to the plan.

3.2 Controversial Transactions

Audit monitoring	Comments from management	Recommendation
<p>Although, according to the financial statements of the Land Reform Commission it had been stated an amount of Rs.54,912,000 as receivable from the Hadabima Authority as at 31 December of the year under review, while there was no payable amount in the financial statement of the Hadabima Authority and there was a receivable balance of Rs.2,094,280 from the Land Reform Commission and action had not been taken to rectify the discrepancies in the balances.</p>	<p>It had been notified to the Department of Public Enterprises to cut from the books.</p>	<p>Action must be taken to identify and resolve differences.</p>

3.3 Delays in Project or capital work

Audit monitoring	Comments from management	Recommendation
<p>An advance of Rs. 4,368,321 given last year for the preparation of soil conservation models had been settled in the year under review by keeping the money dormant for more than a year without fulfilling that function.</p>	<p>It was informed that the program could not be implemented due to non-receipt of funds.</p>	<p>Projects should be planned correctly and implemented.</p>

3.4 Procurement Management

The following observation of the will.

Audit monitoring	Comments from management	Recommendation
<p>According to the Government procurement guidelines recommended 1.2.1 Code guidelines (a) and (d) procurement process had not been implemented within the year under review in respect of the of the procurement activities of worth Rs.11,880,000 which the Authority had planned to achieve and goods purchasing worth of Rs.900,000 Kotmale and Pallekele farms and repairs worth of Rs.200,000 million worth of repairs.</p>	<p>It has been informed that it will be corrected in the future.</p>	<p>Procurement Guidelines should be followed.</p>

3.5 Utilization of resources of other organizations

Audit monitoring	Comments from management	Recommendation
Although the buildings had been constructed by expending an amount of Rs.5,724,114 within last years and an amount of Rs.3,176,631 within the year under review by the Authority without proper acquisition of the lands relevant to the institution, and action had not been taken to acquire those lands.	it had been informed that the action are taking to take over the lands.	According to the Procurement Guidelines the construction work should commence after the ownership of the land has been settled.

3.6 Human Resource Management

Audit monitoring	Comments from management	Recommendation
(a) Although there were 18 vacancies in the 11 posts according the approved and actual carder of the Sri Lanka Hadabima Authority as at 31 December 2019 and actions had not been taken to fill the vacancies.	It has been informed that action will be taken to fill the vacancies in the future.	Action should be taken to fill the vacancies.
(b) For the post of Assistant / Deputy Director, 03 officers had served on a secondary basis since 2005 and no officer had been appointed since August 2017.	It has been informed that action will be taken to fill the vacancies in the future.	Action should be taken to appoint an officer for the post of Assistant / Deputy Director.