

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hector Kobbekaduwa Agrarian Research and Training Institute for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and the 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 presented in 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 Institute as at 31 December 2020, and 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

My opinion is qualified based 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 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Institute 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 Institute.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of Financial Statements)

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, misrepresentation 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 Institute'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 Institute'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 Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
In terms of paragraph 48 of Sri Lanka Public Sector Accounting Standard 01, assets and liabilities, and revenue and expenses shall not be offset unless required or permitted by Standards. However, a sum of Rs.1,962,545 to be reimbursed from Dambulla Divisional Secretary for renovating and maintaining of the Pelwehera Circuit Bungalow carried out in preceding years, had been offset and accounted against the lease rental of Rs.1,000,000 payable from 12 December 2011 to 12 December 2019 for the said circuit bungalow. Further, an effective measure had not been taken to reimburse the said amount.	A request had been made in writing to the Dambulla Divisional Secretary for reimbursing the said amount. However, they had not agreed therefor by the letter No.5/3/9/3/28 of 11 August 2020. Moreover, a letter No.AD/2/5/0/08 dated 19 April 2021 has been again forwarded to the Dambulla Divisional Secretary by describing matters further. Necessary action will be taken further to recover the said amount.	Revenue and expenses shall not be offset unless required or permitted by Sri Lanka Public Sector Accounting Standards, and expenses for renovating activities should be reimbursed.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Even though it was mentioned in the letter No.10/01/82(v) dated 11 February 2021 addressed to the Additional Secretary to the Prime Minister by the Registrar for providing room facilities to security officers of the Prime Minister's Office from 08 October 2020 to 31 December 2020, the said amount had not been brought to account as an income receivable in the year under review. As such, revenue from hostels and revenue receivable had been understated by the same amount.	Preparation of bills relating to providing room facilities to officers of the Prime Minister's Office had been carried out in the year 2021 and as such, the said amount could not be brought to account in the year 2020. Adjustments relating to the said revenue have been made during the year 2021.	Revenue should be correctly identified and brought to account.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) It was observed in audit that out of the total debtors balance of Rs.25,508,310, other debtors balance of Rs.610,215 except for debtors with foreign scholarships had remained unrecovered over a period of 05 years as at 31 December 2020. It was further observed in audit that the said loan balance included a sum of Rs.482,304 which was recoverable from employees.	The manner of preparation of other debtors balance that remained over a period of 05 years other than debtors with foreign scholarships has been shown in detail.	Balances recoverable should be recovered timely.

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| <p>(b) A sum of Rs.12,874,881 was recoverable from debtors with foreign scholarships, of the Institute remaining prior to the year 2020 as at 31 December 2020 and the Institute had failed to recover the said balance.</p> | <p>Only a sum of Rs.12,874,129 was recoverable from debtors with foreign scholarships, of the Institute as at 31 December 2002. The Institute had paid special attention towards the debtors with foreign scholarships during 10 preceding years and taken action prudently thereon, thus the actual balance had decreased.</p> | <p>Taking appropriate measures by conducting inquires thereon and recovery of moneys.</p> |
| <p>(c) Even though the Attorney General had been informed on 03 January 2006 to institute a lawsuit, legal action had not been taken against the person, M.S.Gauri Shankar, Research Officer who is a debtor with a foreign scholarship due to lack of overseas address. As such, no money out of the sum of Rs.3,634,110 recoverable from him as at 31 December 2019 could not be recovered even during the year 2020 and the Institute had not drawn its attention to find out the said address.</p> | <p>The Letter of Demand could not be sent due to failure in finding his present address. Even though the Institute had taken various action to find the said address, it was a failure.</p> | <p>Legal action should be taken after finding the address.</p> |

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
<p>It was observed in audit that the creditors balance of Rs.17,207,081 payable as at 31 December of the year under review included a balance of Rs.626,737 remained unsettled over a period of 05 years.</p>	<p>Creditors balance of Rs.626,737 remaining over a period of 05 years in the Institute has been shown in detail.</p>	<p>Appropriate adjustments should be made in case of unavailability of claimants for balances payable.</p>

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 756	A survey on library books had not been carried out in the year 2020 and reports thereon had not been furnished to Audit.	The draft report of the survey on library books in the year 2020 had not been furnished to Audit.	A survey on library books should be carried out and a copy of the report thereon should be furnished to Audit.

2. Financial Review

2.1 Financial Result

The operating result of the Institute for the year under review had been a deficit of Rs.16,201,196 as compared with the corresponding deficit of Rs.2,065,352 in the preceding year, thus observing a deterioration of Rs.14,135,844 in the financial result. The decrease in Government grants by Rs.20,260,250, in capital grants received for research and training activities by Rs.15,194,579 and decrease in other income by Rs.12,219,495 in the year under review as compared with the preceding year had been the main reason for the above deterioration.

2.2 Trend Analysis on major Income and Expenditure

Other income, Government grants, capital grants, funds received from other parties had decreased by 38 per cent, 12 per cent, 97 per cent and 43 per cent respectively in the year under review as compared with the preceding year. Moreover, employees' remuneration, expenditure on research and training and other expenses had decreased by 5, 90, 43 and 41 per cent respectively.

2.3 Ratio Analysis

The income surplus ratio of the year under review as compared with the preceding year had increased by 8.08 per cent, whilst the current ratio and quick assets ratio had decreased by 0.23 per cent and 0.28 per cent respectively.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The Bio Gas Unit installed at a cost of Rs.1,031,020 during the period between 2012-2015 had been inoperative since the year 2016 and even though a balloon had been purchased instead of that by paying Rs.22,500 as advances in the year 2018, the said balloon had not been installed due to defects in other devices of the Unit. Moreover, the total expenditure of the Unit by 31 December 2020 had been Rs.1,053,520. Devices of the Unit had become inoperative and unserviceable due to being remained without repairing for a long period.	Action is being taken to settle the said advance and the Director had appointed a committee to take action in terms of Financial Regulation 104 in respect of the said Bio Gas Unit and future action will be taken on recommendations thereof.	Steps should be taken to utilize or dispose of in an appropriate manner.
(b) Seven research projects commenced by the Institute by spending Rs.4,453,000 in the years 2015, 2016, 2018 and 2019 had not been completed even by 31 December 2020 despite having lapsed a period from 01 to 05 years. In such situation, recommendations of research programmes carried out on timely requirements had not been received by relevant parties within the due period.	Current progress has been shown in detail.	Action should be taken according to the Action Plan and research projects be completed duly.
(c) Action had not been taken to recover the sum of Rs.8,895,470 recoverable for the period from September 2015 to July 2018 for renting out rooms of the hostel for the security officers of the Minister of Agriculture.	A committee consisting three officers of the Institute has been appointed by Letter No.R/Info/5 of 10 July 2019 by the Director for revealing information	Rentals should be recovered.

thereon and the said committee report has been submitted to the Director on 02 September 2019. A new committee has been appointed by Letter No.R/Info/5-II of 24 February 2021 to consider the methodology of recovering the value of Rs.8,895,470 identified as the value recoverable by the said committee report. The report of the said committee dated 19 April 2021 too has been forwarded to the Director. As such, action will be taken in future to recover the relevant sum.

- (d) Ten research projects which should be completed and published as at 31 December 2020 but not completed, had been indicated as completed in the draft Annual Report.
- In the analysis of data and preparation of a report in a research project, the Research Officer can submit findings and recommendations on the said project. That is, the said findings and recommendations are submitted in various instances for making necessary decisions. However, when indicating a physical progress between 60 and 100 per cent in the research process, only the preparation and publication of the report is relevant. Accordingly, in submitting the performance in the Annual Report, research projects are submitted under two categories as
- Only particulars of research projects completed in the year 2020 should be included in the performance report of that year.

“in progress” and “finalized studies”. According to the finalized study, it is one which is in submitting level of the findings and recommendations of the researcher. As such, even though all these studies and research reports are not published in the Annual Report of 2020, the findings and recommendations of the said studies are in submitting level. Thus, all aforesaid studies are recorded as research projects completed in March 2021, by the instance of preparing the control report 2020. Moreover, these reports are the final stage of the research process which indicates a progress between 60 and 100 per cent.

3.2 Transactions of Contentious Nature

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
It was observed during the audit examination carried out on 14 July 2020 that a camera purchased at a sum of Rs.89,000 in the year 2014, had not been available in the Institute.	No comments have been made.	Action should be taken in terms of Financial Regulation 104.

3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
Eighty two sheets of Asbestos valued at Rs.123,220 purchased for repairing the roof of the new hall of the Institute in the year 2017 had not been utilized for the relevant purpose and had been stacked in the Institute in an unprotected manner and most of them had become damaged by the year under review.	Even though quotations were called in many instances for the repairs of this new hall during the preceding year, there had been no offers from tenderers relating to the said repairs. As such, repairs have delayed. Action will be taken in future to procure the necessary activities for this repairs and to use these sheets therefor.	Goods purchased should be utilized.

3.4 Management of the Vehicle Fleet

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
The ownership of vehicle No.40-3933 provided to the Institute by the United Nations Food and Agricultural Organization has not been legally transferred to the Institute and it had not been made use of since the year 2015.	This vehicle has been provided by the United Nations Food and Agricultural Organization for research purposes of this Institute and its ownership has not been transferred to our Institute. If the ownership is transferred, vehicle licence fees and other fees payable to the Government since previous years should be paid and according to the present condition and value of the vehicle, it is unfavourable for the Institute. The said Institute has been notified to take back the vehicle. No response has been received from the relevant institute so far.	The vehicle should be transferred and repaired.

4. Accountability and Good Governance

4.1 Tabling the Annual Report in Parliament

Audit Observation	Comments of the Management	Recommendation
The Annual Performance Report of the year 2019 had not been tabled in Parliament.	The Annual Report of the year 2019 has been submitted on 04 March 2021 to the State Ministry of Agriculture for Cabinet approval. Preparation of annual reports and obtaining approval of the Board of Governors was delayed due to the Covid 19 pandemic situation which prevailed in the year 2020. Necessary arrangements will be made to table the Annual Report of the year 2019 in Parliament immediately after obtaining approval of the Board of Governors.	Annual reports should be tabled in Parliament without delay.

4.2 Annual Action Plan

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.8,366,000 had been spent for 11 research projects included in the Action Plan of the year 2019, commenced in the year 2019 and due to be completed in the year 2020. However, it had not been published even by 31 December 2020.	Particulars on projects have been indicated separately.	Functions should be properly carried out in compliance with the Action Plan.
(b) A sum of Rs.0.90 million had been allocated by the Action Plan of the year 2020 for Institute Publications with the motive of providing policy makers with necessary amendments in current policies and new policies relating to the Agricultural Sector and information thereon. However, no activity whatsoever had been carried out making use of the said provision.	This situation is being corrected.	Functions should be properly carried out in compliance with the Action Plan.

- (c) It was observed that programmes identified for providing necessary parties with research findings and new knowledge generated from carrying out research programmes which is one of the key functions of the Institute, are not properly implemented annually or periodically. Moreover, provision too had not been made by the Action Plans for the purpose of publishing research reports in the years 2017, 2018, 2019 and 2020.
- The Research Colloquium Functions should be published annually by the Institute has been last published in the year 2015. Even though various parties were invited, their level of participation was as low as 20 per cent. As such, various programmes for providing necessary parties with research findings and new knowledge were carried out after the year 2016.
- Functions should be properly carried out in compliance with the Action Plan.