

Hadabima Authority of Sri Lanka (Sri Lanka Haritha Danaw Bim Sanvardana Madyama Adikariya) - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hadabima Authority of Sri Lanka (Sri Lanka Haritha Danaw Bim Sanvardana Madyama Adikariya) for the year ended 31st December 2020 comprising the statement of financial position as at 31st December 2020 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 Authority as at 31 December 2020, 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, the 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 (Auditor's Responsibilities on the Audit of the 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 further:

- 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 Authority'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 Authority'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 Authority 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 whenever 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following matters are observed.

Non Compliance with reference to particular Standard	Management Comments	Recommendation
(a) The revalued amount should be accounted for in terms of paragraph 42 of Public Sector Accounting Standards of Sri Lanka - 07. However, the Isuzu lorry owned by the Authority was revalued at Rs.3,500,000 in 2018, but no adjustments were made in the financial statements.	As this lorry was an asset of our Authority's sales project in the relevant year, it was not mentioned in the Authority's financial statements but it was represented in the sales project's accounts.	The public sector accounting standards should be followed.
(b) As per paragraph 92 of the Sri Lanka Public Sector Accounting Standards 07, the information on fair value had not been disclosed with respect to already using property plant and equipment which is temporarily inactive.	Action will be taken to rectify this through the final account for the year 2021.	The public sector accounting standards should be followed.
(c) The depreciation accounting policy of the Authority had been changed in the year 2017 however; the Authority had changed the accounting policy only for a portion of the assets as at 01 st January 2017. The depreciation effect due to this had been adjusted retrospectively but no action had been taken to restate the financial statements by adjusting the	That the relevant depreciation adjustments have been made to the assets of the Authority and that the depreciation of the assets relevant to the Sales project has not been adjusted by those responsible for that project.	The public sector accounting standards should be followed.

depreciation with respect of assets worth of Rs.10,851,120.

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| <p>(d) Although the purchase of fixed assets under the investment activities of the cash flow statement was Rs.12,464,798, the acquisition of property, plant and equipment during the year was Rs.5,286,005 hence, a difference of Rs.7,178,793 was observed. Also, as per Sri Lanka Public Sector Accounting Standards 02; the value of the property plant and equipment acquired during the period of the Cash Flow Statement, and out of that value; the value of the property plant and equipment acquired by the Government Capital Grants and the value paid in cash should be presented as notes, even if the details of assets worth Rs.5,286,005 purchased during the year under review had not been disclosed, As per this requirement.</p> | <p>Relevant officials have been instructed to implement this properly from the year 2021 and accordingly action will be taken to rectify this through the final account for the year 2021.</p> | <p>The public sector accounting standards should be followed.</p> |
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1.5.2 Accounting Deficiencies

The following observations are made

Audit observation	Management Comments	Recommendation
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<p>(a) Due to accounting errors, the expenditure of the authority for the year under review had been overstated by Rs.3,901,596, consequently, the deficit of the reviewed year had also been overstated by that amount in the financial statements.</p>	<p>It will be completely rectified through the final account for 2021 and the officer has been instructed to perform his duties properly.</p>	<p>Accurate information should be disclosed in the financial statements.</p>
<p>(b) On March 12, 2020, the court decided to pay total compensation of Rs.1,605,294 in connection with two lawsuits filed by two employees against the authority</p>	<p>Action will be taken to rectify this through the final account for the year 2021.</p>	<p>Accounts should be prepared accurately.</p>

regarding termination of employment. By the end of the year under review, the compensation had not been paid and the necessary provisions in the financial statements had not been made.

1.5.3 Unauthorized Transactions

----- Description of unauthorized transaction -----

Hadabima Co-operative Society Ltd has been taken into custody and used 204 units of non-assessed furniture, including desks, chairs, shelves, electric equipment including computers and cash collectors, and other items used for sale at the Sri Lanka Hadabima Authority sales unit from 01st February 2019 but did not have the approval of the Board of Directors of the Authority for such transfer. The Co-operative Society has also used the premises of sales buildings at Getambe and Weligama, but without the approval of the Board of Directors of the Authority.

----- Management Comments -----

Cabinet Paper dated 31st March 2017, the Minister in charge of the subject at that time had decided that if the properties, assets or funds belonging to the Hadabima Authority were to be transferred to the proposed society, the approval of the Board of Directors would have to be obtained but had been acted upon. Also, the Minister's order is that the aforesaid assets should be handed over to the society within a period of time imposed by the Board of Directors of the Authority, but it has acted contrary to it.

----- Recommendation -----

Cabinet decisions should be implemented.

1.6 Accounts Receivable and Payable

----- 1.6.1 Accounts Receivable -----

----- Audit observation -----

Trade and other receivables as at 31st December of the year under review were Rs.28,605,445 Out of which Rs.5,054,805 was outstanding balance for more than one year. No immediate action had been taken to settle these balances.

----- Management Comments -----

That legal action has been taken to recover

----- Recommendation -----

Necessary steps should be taken to recover.

1.6.2 Accounts Payable

Audit observation	Management Comments	Recommendation
(a) The total of 09 trade and other payable balances was Rs.9, 645,041 out of which Rs.5,732,336 was outstanding balances over one year.	That the necessary action will be taken.	The balances payable should be settled as per the agreement.
(b) In the Statement of Financial position as at 31 st December of the year under review, it was stated that an amount of Rs 2,094,280 was due from the Land Reforms Commission and according to the financial statements of the Land Reforms Commission on that day; the amount due from the Hadabima Authority from 1989 was Rs.54,911,756. No action had been taken to find out the reasons and set off.	That the Department of Public Enterprises has been inquired for write off in the books.	It should act upon the agreement related to transactions.

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

The following is an analysis of non-compliance with the laws, rules, regulations, and management decisions observed during the sample audit.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comments	Recommendation
(a) Decisions taken by the Cabinet on 25 th April 2017 in the Cabinet Memorandum submitted by the Minister of Regional Development on 31 st March 2017 on expanding and modernizing the scope of the Hadabima Authority of Sri Lanka.			
(i) Publishing the recommendations of the expert committee which prepared the Cabinet Memorandum; as an order through a gazette	The gazette notification had not been issued and reported to Parliament.	The relevant gazette notification has been submitted but we have not received any evidence as to whether the gazette notification	The decision of the Cabinet of Ministers should be implemented.

	notification and submitting the aforesaid gazette notification to Parliament.		was submitted to Parliament for approval or not.	
(ii)	Preparation of a Corporate Plan and Human Resource Development Plan for the period from 2018 to 2020 on behalf of the Authority	A Corporate plan had been prepared but no human resource development plan had been prepared.	Accepted	The decision of the Cabinet of Ministers should be implemented
(iii)	Registration of the Marketing Promotion Unit as a Co-operative Society and recruitment of employees as employees of the said Co-operative Society.	Employees were recruited as employees of the Co-operative Society but later, on 7 th January 2020, 12 employees were terminated.	The shop had been illegally handed over to an institution called Hadabima Co-operative Society Limited with effect from February 1, 2019 and the officers mentioned here have been given permanent appointments after being attached to the society. Accordingly, they are not considered as employees of our Authority and Our Authority is not responsible in that regard.	The decision of the Cabinet of Ministers should be implemented.
(b)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
i.	Financial regulation 103 and Financial regulation 110	There were Rs.129,910 worth of plant damage in Kothmale and Pallekelle farms and Rs.565,594 worth of deaths of chickens and other animals and egg waste at the Pallekele farm, but	At present, written and oral instructions have been given to the Pallekele farm to update the damage and loss records daily and to submit monthly damage reports to the head office.	Action should be taken with regarding damages.

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| | no action had been taken in accordance with the financial regulations. | | |
| ii. Financial regulation 396 and Treasury Secretary Circular No: 06/2016 dated 06 th October 2016. | Although the Secretary of the Ministry or the Head of the Department should pay attention to the Cheques not submitted for payment; No action had been taken with regards to 131 cheques amounting to Rs.1,030,720 which had been issued for two bank accounts from 2015 to 2019 but had not been submitted for payment. | That the necessary steps are being taken. | Financial regulations should be complied with. |
| iii. Financial regulation 880 | Officers in charge of public cash revenue or inventory or involved in distributing them Or officers who are administratively responsible for and the officers certifying the vouchers and signing the cheques relevant to the government account were required to give security, but no security had been obtained from 23 officers relevant to 10 posts in the Authority. | At present action is being taken to recover security from all the officers who are required to give security. | Financial regulations should be complied with |

2. Financial Review

2.1 Financial Result

The financial result of the year under review amounted to a surplus of Rs.7,059,573 and the corresponding surplus in the preceding year amounted to Rs.6,173,377. Therefore an improvement amounting to Rs.886,196 of the financial result was observed. This improvement was mainly due to the decrease of Rs.61,196,209 in development expenditure during the year under review as compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

The following observations are made.

Audit observation -----	Management Comments -----	Recommendation -----
(a) The total loss of the two farms of Kotmale and Pallekele from 2015 to 2019 was Rs. 9,933,656 and in the year 2020 it was Rs.3,496,573 and Rs.4,503,158 respectively.. According to the letter of the Secretary in the Ministry of Irrigation No:04/04/07 dated 04 th March 2015, it had been informed to develop a business plan that specifically identified production and income with monthly subdivisions for the two farms and take actions to make the farms profitable by the end of the year 2020. No action had been taken accordingly.	The Business plans for the two farms have been prepared and submitted to the Board of Directors there, necessary amendments will be made and a more practical business plan will be finalized for the farm as soon as possible.	A formal business plan should be formulated and implemented.
(b) The sales outlet constructed in Ingiriya area in the year 2014 at a cost of Rs.5,568,974 under the marketing project had been handed over to the Ingiriya Divisional Secretary in the year 2020 without any use. It was caused by working without a formal plan.	At present, construction works through the authority without any planning or land acquisition has been stopped.	It needs to work in a planned manner.

3.2 Idle or underutilized Property, Plant and Equipment

Audit observation	Management Comments	Recommendation
Although a nursery, vegetable and green leaves plantations, a cattle ranch and a shop were maintained as cultivations, only 03 acres had been utilized while the Kotmale farm covers an area of 05 acres.	It is acknowledged that the farm has used only 3 acres for seedling production and arrangements are being made to use a few acres that have not been utilized so far for seedling production, from this year onward.	Action should be taken to utilize the assets maximally.

3.3 Utilization of Resources of Other Organizations

The following observations are made

Audit observation	Management Comments	Recommendation
The Authority had constructed buildings for long term use without formally taking over the lands belonging to other institutions. The buildings worth of Rs.5,724,114 in the years prior to last year and Rs.3,176,631 in previous year had been constructed on these lands, but some of these buildings remained idle. The building constructed at a cost of Rs.535,100 to maintain a training center at the Kotmale farm and the old stables on the farm had not been utilized for any purpose.	Relevant actions are being carried out to take over the head office premises, official quarters, Pallekele and Kotmale Farm to the Authority which were not formally taken over by the Authority.	According to Guideline 2.3.1 (b) of the Government Procurement Guidelines, construction should be carried out after the acquisition of lands. However, steps should be taken to utilize the existing assets effectively.

3.4 Human Resources Management

The following observations are made.

Audit observation	Management Comments	Recommendation
(a) The farm activities had been carried out using 12 staff officers approved to the Hadabima Authority without establishing an approved staff for the farms as per Finance Regulation 71.	Accepted.	Vacancies should be filled based on the requirement.
(b) As per paragraph 7.4.4 of Public enterprises Circular No. 12 dated 02 nd June 2003, Although a training	Accepted.	Action should be taken to utilize the funds efficiently to

committee should have been appointed to evaluate the training requirements of the organization, being prepare for future changes in the organization and improve the productivity of the staff, it had not acted accordingly, but Rs.3,702,821 had been spent during the last five years on human resource development without a plan.

meet the training requirements.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit observation

Management Comments

Recommendation

According to paragraph 6.5.3 of the Public Enterprise Circular of the Director General of Public Enterprises No. PED 12 dated June 02nd, 2003, the Annual Report should be submitted to Parliament within 150 days after the end of the financial year, but the Annual Reports for the years 2018 and 2019 had not been tabled in Parliament.

In the future, the Annual reports will be tabled in Parliament in due course,

It should be complied with circular provision.

4.2 Sustainable Development Goals

Audit observation

Management Comments

Recommendation

In accordance with the Circular of the Secretary in the Ministry of Sustainable Development and Wildlife No. 08/65 dated 27th April 2018, officials have not been nominated and directed to the Ministry of Sustainable Development and Wildlife for coordinating activities to achieve the Sustainable Development Goals in accordance with a national level strategic management plan at the Institutional, Provincial and National levels.

That will be corrected in the future.

Attention should be paid on Sustainable Development Goals.