

Hadabima Authority of Sri Lanka (Sri Lanka Haritha Danaw Bim Sanwardhana Madhyama Adhikariya) - 2021

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 Sanwardhana Madhyama Adhikariya) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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 skepticism 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

Audit observation	Management Comments	Recommendation
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(a) In accordance with Sri Lanka Public Sector Accounting Standard 02, Although it should be mentioned, the value of property, plant and equipment acquired during the period in the statement of cash flows, the value of property, plant and equipment acquired from the Government's capital grants and the value paid from the authority's money should be disclosed as detailed notes or in the financial statements this information was not disclosed regarding the assets of Rs.4,384,829 purchased during the year under review.	It will be corrected through the final account of 2022.	Sri Lanka Public Sector Accounting Standards should be followed.
(b) In accordance with paragraph 47 of Sri Lanka Public Sector Accounting Standard No. 07, when the fair value of the assets changes materially from its existing book value, the said assets must be revalued, but the agricultural equipment that was stated in the financial statements under a nominal	That, the revaluation has been completed on March 25, 2022 and the revalued amounts have been received by the Authority.	Sri Lanka Public Sector Accounting Standards should be followed.

value of Rs.245,047 continued to be used, those assets had not been revalued and their fair value was not stated in the financial statements.

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| (c) | In accordance with paragraph 28 of Sri Lanka Public Sector Accounting Standard No. 10, even though the entity should have transferred the risks and rewards of ownership of the goods to the buyer in order to recognize the revenue from the sale of goods A value of farm production of Rs.1,417,200 which had not been supplied to the customers as at 31 st December 2021 had been recognized as revenue from Credit sales. As a result, the sales revenue of the year under review was overstated in the financial statements. | Action will be taken to avoid such problems with the plants sold in the future. | Sri Lanka Public Sector Accounting Standards should be followed. |
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1.5.2 Accounting Deficiencies

Audit observation	Management Comments	Recommendation
(a) When bringing forward the 2 account balances included in the statement of financial position prepared on December 31 of the previous year, their value was overstated by Rs.1,144,056 to the ledger, but the reasons for this difference were not explained to the audit.	That, It will be corrected in the year 2020.	The audited account balances of the previous year should be carried forward correctly.
(b) According to the financial statements of the Land Reforms Commission as on 31st December of the year under review, the balance payable by the authority was Rs. 54,911,756 but according to the financial statements of the authority, there was no corresponding payable balance. However, the balance receivable to the authority from the Land Reform Commission was Rs. 2,094,280 in the financial	That the recommendations from Board of Directors has been received to write off Rs.2,094,280 due from the Land Reforms Commission and the amount of Rs.54,911,756 payable to such commission will be made with the approval of the Finance Commission.	Accounts receivable and payable should be settled.

statements, and the balance was carried forward from the year 1998. No action had been taken to find out about this difference and show the correct position in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit observation -----	Management Comments -----	Recommendation -----
(a) As on December 31 of the year under review, the balance of trade and other receivables was Rs.20,444,454, of which Rs.16,807,719 were receivable balances elapsed one year	That, necessary action has been taken	Steps should be taken to recover the arrears
(b) According to the recommendation report of the formal disciplinary investigation regarding the fact that the suppliers had been fraudulently paid twice for the goods supplied to the sales department of the Sri Lanka Hadabima Authority in 2014 and 2015, the amount to be collected from the officials was Rs. 2,116,410. Out of which Rs.844,251 had been recovered during the year under review and an amount of Rs.1,272,159 was still to be recovered.	That, necessary action has been taken	Steps should be taken to recover the arrears

1.6.2 Accounts Payable

Audit observation -----	Management Comments -----	Recommendation -----
The total of 09 trade and other payable balances was Rs.9,866,005, out of which Rs.1,152,732 were outstanding balances that elapsed one year.	That, necessary action has been taken.	Receivable balances should be settled as per the agreements.

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) Guideline 8.9.3(b) of the Government Procurement Guidelines	Although it is necessary to enter into a formal written agreement regarding the transactions for the supply of goods or services exceeding Rs.500,000, written agreements were not entered with regarding the supplies of Rs.832,065 which exceeding that limit.	Because the suppliers had given a warranty period, Contract was not entered into.	Government procurement guidelines should be followed.
(b) Paragraph 5.3(ii) of the Procedure for the Recruitment of Management Assistant (Technical) Officers of Sri Lanka Hadabima Authority	Although the candidates should be selected and appointed in the order of merit, among those who scored the highest marks in the structured interview conducted as per the prescribed procedure, the four candidates who scored the highest marks in the structured interview and were prioritized from 1st priority to 4th priority will not be given appointment but the 4 candidates who got priority 7, 14 and 18 (there are two candidates at 18.) were given appointments. Thus, appointments were given without considering the order of merit presented by the interview panel.	No answers provided.	Recruitment should be done as per recruitment procedure.
(c) Paragraph 4.3.3(1) of the procedure for the recruitment of zonal officers of the Sri Lanka Hadabima Authority	The candidates who have obtained the highest marks in the structured interview conducted as per the prescribed procedure shall be selected and appointed according to the order of merit. The zonal officer appointment was given to the 6 th priority applicant instead of the first priority applicant. Thus, appointments were given without	No Comments	Recruitment should be done as per recruitment procedure.

considering the order of merit presented by the interview panel.

(d) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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| (i) | Financial regulation 188(2) | Although action should be taken to identify the transaction related to direct remittance to the bank account and keep accounts accordingly, in 80 occasions, Rs.625,340 so deposited in two bank accounts had not been dealt with accordingly. | It will be corrected soon. | The money directly remitted to the bank account should be identified and accounted for. |
| (ii) | Financial regulation 396 | Although checks issued but not presented for payment are to be dealt with as per regulations in relating to 163 cheques it had not been act accordingly. Out of these cheques, 147 cheques related to Rs.1,229,966 were dated to 2020 and previous years. | That proceeds will be taken upon the approval of the Board of Directors. | Financial regulations should be followed. |

2. Financial Review

2.1 Financial Result

The financial result of the year under review amounted to a surplus of Rs.18,878,424 and the corresponding surplus in the preceding year amounted to Rs.7,059,573. Therefore, an improvement amounting to Rs.11,818,851 of the financial result was observed. This improvement was mainly due to the increase of Rs.72,534,000 in the government provisions in the reviewed year compared to the previous year.

3. Operational Review

3.1 Identified losses

Audit observation	Management Comments	Recommendation
In the year under review, Pallekele farm had incurred losses of Rs.1,412,013 and Kothmale farm had incurred losses of Rs.3,130,475. The increase in operating expenses over the sales revenue had thus led to farm losses.	Agree with the information provided.	Income and expenditure should be managed in a planned manner.

3.2 Management inefficiencies

Audit observation	Management Comments	Recommendation
(a) 1860 sets of agricultural equipment worth Rs. 7,516,260 including a hoe, a fork, a shovel, a watering can and a rake purchased to be given to the selected beneficiaries under the organic fertilizer production program in 2020 were kept in the warehouse without being delivered to the beneficiaries as of January 25, 2022. Also, the agricultural equipment worth Rs. 19,951,656 purchased to provide the equipment to 10680 families in the year under review was also kept in the warehouse till January 25, 2022. Among the agricultural equipment there were 2670 hoes, 6102 Fork hoes, 6102 shovels and 5929 Watering cans.	No comments.	Action should be taken in accordance with action plan.
(b) The Department of Agriculture had not given permission to get facilities like water and electricity for the sales building built in the year 2017 at a cost of Rs.4,464,521 on a land belonging to the Department of Agriculture located in Kundasale and the building remained unused as it had expressed its	An agreement was reached with the Department of Agriculture and the need to use this building for an income generation process was discussed. Accordingly, a written	The building constructed using government funds should be utilized effectively.

opposition to its use.

request has been submitted to the Director General of the Department of Agriculture.

3.3 Idle or underutilized Property, Plant and Equipment

Audit observation	Management comments	Recommendation
A cab worth of Rs.1,000,000 and a tractor worth of Rs.195,000 belonging to the authority remained unused for a period of 3 years.	That it will be repaired and put into use or if that is not possible, auctioned.	The assets owned by the institution should be utilized effectively.

3.4 Utilization of Resources of Other Organizations

Audit observation	Management Comments	Recommendation
The Authority's main administrative building and land at Gannoruwa, 5 acres of Kotmale and 10 acres of Pallekele farms were being used without being taken over to the Authority.	That the activities related to taking over the main office premises, Pallekele and Kothmale farms which were not formally handed over to the authority, are currently being carried out.	These assets used by the authority should be taken over

3.5 Human Resources Management

Audit observation	Management Comments	Recommendation
According to Financial Regulations 71, without establishing an approved task force for the farms, 12 officials of the task force approved for the Hadabima Authority were used to run the farm.	Accepted.	Vacancies should be filled based on the need.

4. **Accountability and Good Governance**

4.1 **Tabling of Annual Report in Parliament**

Audit observation

According to paragraph 6.5.3 of the Public Enterprises Circular of the Director General of Public Enterprises No. PED 12 dated June 02, 2003, the annual report should be submitted to the Parliament within 150 days from the end of the financial year, but that requirement was not fulfilled for the years 2019 and 2020.

Management
Comments

That, the annual reports will be tabled within due time period in the Parliament in future

Recommendation

Circular instructions should be followed.

4.2 **Annual Action Plan**

Audit observation

According to the order published by the Minister of Agriculture and Lands in the Special Gazette Notification No. 302/12 dated February 01, 1978, although measures should be taken by the Authority to conserve land and water resources so as to maximize productivity and protect the environment, according to the activities of the last few years, it was observed that not enough attention was paid on it.

Management Comments

That, these works were planned according to the amount of money allocated to the authority.

Recommendation

Action should be taken in a planned manner to fulfill the responsibilities assigned to Authority.