

Hector Kobbekaduwa Agrarian Research and Training - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Hector Kobbekaduwa Agrarian Research and Training Institute 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 report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Hector Kobbekaduwa Agrarian Research and Training Institute 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 Opinion

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 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 Institute'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 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 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 Auditor's Responsibilities for 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 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 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 Accounts Receivable and Payable

1.5.1 Receivable

Audit Observation	Management comments	Recommendation
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(a) It was observed during the audit that out of the total debtor balance of Rs.31,044,679 as on 31 December 2021, apart from foreign scholarship debtors, Rs.533,296 of the debtor balance has remained uncollected for more than 05 years. During the audit, it was observed that an amount of Rs.498,326 in this loan balance should be collected from the employees.	Due to the inability to find the current addresses of 05 of the 06 scholarship recipient debtors, it has not been possible to take further steps to recover the loan. Legal proceedings are ongoing for the other debtor. Although the case was not settled, the debtor has periodically credited Rs.580,000 to the company's account.	Due balances should be collected promptly.
(b) As on 31 December 2021, the institution has to collect an amount of Rs.12,859,881 from 06 foreign scholarship debtors existing before the year 2002 and no amount was collected from those 05 debtors in the year under review.	Reminders to recover this amount have been sent to the concerned employees but no response has been received. The officers of the institute have been summoned by the Attorney General's Department on 06 June 2022 for the instructions of the Attorney General and action will be taken to recover the money in the future based on the instructions given.	Investigations should be done and money should be collected.

1.5.2 Payables

Audit Observation	Management comments	Recommendation
It was observed during the audit that out of the creditor balance of Rs.19,681,654 as at 31 December of the year under review, there is an unsettled balance of Rs.643,706 existing for more than 05 years.	The amount involved has not been settled due to non-payment of gratuity money, non-claiming of money despite notification, non-claiming of contractor retention charges, non-adjustment of accounts in respect of cancelled cheques on expiry of date, non-releasing of tenders and security deposits, payable to the Ministry after recovering from the driver, non-adjusting of accounts on funds received for food security, needs assessment studies.	Should be promptly refunded or credited to income if not claimed.

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

With reference to laws, rules, regulations etc	Non-compliance	Management comments	Recommendation
F.R. 211	A surcharge of Rs.25,929 was paid due to non-payment of electricity bills on time during the period 2019 – 2021.	A committee has been appointed to identify the officials responsible for the delay in payment of the relevant bills and to examine the related matters and name the responsible parties and the recommendations of the committee will be dealt with in the future.	Electricity bills should be settled immediately.

2. Financial Review

2.1 Financial Result

According to the financial statements submitted, The operating result of the year under review amounted to a surplus of Rs. 12,133,601 and the corresponding deficit in the preceding year amounted to Rs. 16,201,196. Therefore an improvement amounting to Rs. 28,334,797 of the financial result was observed. Increase in the Government Grant by Rs. 26,669,338 and increase in the Capital grants for research and training activities by Rs. 7,192,746 are main reasons for this financial result.

2.2 Trend Analysis of major Income and Expenditure items

When comparing the year under review with the previous year, Government Grants and Capital Grants had increased by 17 percent and 1439 percent respectively, but other incomes had decreased by 10 percent. Similarly, research and training expenses had increased by 406 percent and other expenses had increased by 17 percent.

2.3 Ratio analysis

Compared to the previous year, the income surplus ratio has decreased by 3.24 percent and the current ratio and quick ratio have increased by 0.24 percent and 0.23 percent respectively.

3. Operational review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Management comments	Recommendation
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(a) The biogas unit which was established at the head office at a cost of Rs.1,031,020 during the period 2012 - 2015 remained non-functional since 2016 and instead, although a sum of Rs. 22,500 paid in advance and bought a balloon in the year 2018, the balloon was not installed due to other operational faults of the unit and as on 31 December 2021 the total cost of the unit was Rs.1,053,520. It had not been repaired for a long time and its components had become disabled and unusable. In this connection, a committee had been appointed to conduct investigations as per F.R. 104 and the report of the committee had not been given.	The investigation report has been delayed due to reasons such as retirement of members and transfer of officials in the Ministry, and therefore new officers had to be appointed for this purpose. It was informed that this committee is preparing the final report and I will arrange to get this report soon.	The inquiry committee report should be obtained without delay and its recommendations should be implemented.
(b) An amount of Rs.8,895,470 due from May 2015 to July 2018 for the rental of rooms in the hostel for the security personnel of the Minister of Agriculture, and no action was taken to recover from the lodgers or the officials who gave permission for this.	Reminder letters have been sent to recover the due amount but no response has been received till now. There are not enough documents, notes and other facts to take legal action to recover the money.	Rental must be charged.

3.2 Transactions of Contentious Nature

Audit Observation

Regarding the non-availability of a camera which was purchased at a cost of Rs.89,000 in the year 2014, although an investigation as per F.R. 104 had been conducted, the respective committee had not given the reports.

Management comments

A committee has been appointed to conduct an investigation as per F.R. 104 and further work is to be done according to the report. The report will be provided in the future.

Recommendation

The report of the committee should be obtained without delay and its recommendations should be implemented.

3.3 Vehicle System Management

Audit Observation

The legal ownership of the vehicle number 40-3933 given to the organization by the United Nations Food and Agriculture Organization has not been transferred to the organization and has been unused since 2015.

Management comments

Vehicle No. 40 - 3933 is in an unfit for driving condition and it will cost the company a lot to take over the said vehicle and the company will incur a loss by taking it over. Currently, the vehicle is in a condition that cannot be driven at all. In the future, I will work on the instructions of the Treasury regarding this vehicle.

Recommendation

The ownership of the vehicle should be transferred and repaired.

4. Accountability and good governance

4.1 Tabling of Annual Reports in Parliament

Audit Observation

- (a) The annual performance reports for the years 2019 and 2020 were not tabled in Parliament.

Management comments

The progress of tabling the Annual Reports of 2019 and 2020 in Parliament is given in detail.

Recommendation

Annual reports should be tabled in Parliament without delay.

- (b) Performance in achieving Sustainable Development Goals (SDG) was not included in the Annual Report as per the format laid down in Public Finance Circular No. 01/2020 dated 28 August 2020.

Achieving the Sustainable Development Goals (SDG) has now been included into the annual performance report and revised. I am submitting the completed form as per the above circular herewith for necessary purposes.

Proceedings shall be done as per circular.