

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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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 Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Comment of Management	the Recommendation
(a) Particulars related to financial fraud committed in the Sales Promotion Division in 2014/2015 had not been disclosed in accounts as required by Paragraph 21 (f) of the Sri Lanka Public Sector Accounting Standard 01.	This will be corrected in the final accounts of the ensuing year.	Action should be taken in accordance with Sri Lanka Public Sector Accounting Standard
(b) Although a revaluation amount totalling Rs. 21,597,024 had been stated in the financial statements, disclosures referred to in Paragraph 90 of Sri Lanka Public Sector Accounting Standards 07 were not stated in the financial statements.	This will be corrected in the final accounts of the ensuing year.	Sri Lanka Public Sector Accounting Standard

1.5.2 Accounting Deficiencies

Audit Observations	Comment of Management	the Recommendation
(a) The Authority adopts the first in first out (FIFO) method in the valuation of stock. Although the value of 06 items of stocks was Rs. 16,239,408 according to the first in first out method, that stock had been valued at the last purchasing value of Rs. 17,156,210. Hence, value of the stock had increased by Rs. 916,802.	This error will be corrected in the final accounts of 2023.	Account should be corrected.

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| (b) | In addition to accounting for depreciation of Rs. 6,249,625 for the year under review related to 15 vehicles revalued on 19 and 21 November 2018 and 07 agricultural inputs revalued on 01 February 2022, it had been amortized. Accordingly, as a result of accounting for an amortized income equal to that value, surplus of the year had been overstated. | This error will be corrected in the final accounts of 2023. | Accuracy should be ensured in accounting for values. |
| (c) | Although the debt balance of 06 employees of the Authority totalled Rs. 2,421,814 as at 31 December of the year under review according to the staff loan register, it had been stated as Rs. 2,054,639 in the financial statements, resulting in a difference of Rs.367,175. | This error will be corrected in the final accounts of 2023. | Accuracy should be ensured in accounting for values. |
| (d) | Although stock balance of agricultural tools as at 31 December of the year under review was Rs. 27,440,806 according to the Board of Survey reports and stock schedules, it had been brought to account as Rs. 16,441,967 in the financial statements. Accordingly, the value of the agricultural tools had been understated by Rs. 10,998,840 in the financial statements. Similarly, issue of agricultural tools worth Rs. 13,256,367 during the year under review and the preceding year had not been brought to account under capital expenditure. | Since the agricultural inputs purchased in the year 2021 had been mistakenly removed from the stock account, this difference of Rs.10,998,840 exists. A sum of Rs. 13,256,367 to be adjusted as expenditure due to removal of stocks had not been accounted for as expenditure. | Account balances should be corrected. |
| (e) | The revaluation gains and losses of motorcycles, transfers, disposals, depreciations and the gains and losses from the adjustments of agricultural input totalling Rs. 25,208,334, which have no impact on the cash flow statement, had been adjusted to property, plant and equipment of the cash flow during the year and net value amounting to Rs. 19,598,834 had been stated as a cash flow under investment activities. | This error will be corrected in the final accounts in 2023. | Accounts should be corrected. |
| (f) | According to the useful life of 04 vehicles revalued on 19 November 2018, their depreciation should come to end on 19 | This error will be corrected in the final accounts in 2023. | Depreciation should be correctly brought to account. |

November of the year under review and accordingly, depreciation value for 11 months of the year under review should be Rs. 5,469,588. However, the Authority had allocated depreciation of Rs. 6,200,000 for the year under review. Depreciations totalling Rs. 6,312,084 exceeding total amount of depreciation had been erroneously written off from accounts by Journal No.99 stating as correction of this error. As a result, the expenditure of the year had been understated by Rs. 5,581,972 including deprecation related to the year of Rs. 5,469,588 and excess write-off of Rs. 112,384.

1.5.3 Lack of Documentary Evidence for Audit

	Item	Amount Rs.	Evidence furnished	not for	Comment of the management	Recommendation
(a)	Current Liabilities	4,106,799	Schedules, confirmation letters		Not commented.	Schedules and balance confirmations should be submitted.
(b)	Equity	994,184	Necessity maintenance		Not commented.	Schedules and balance confirmations should be submitted.

1.6 Accounts Receivables and Payables Receivables

Audit Observations	Comment of the Management	Recommendation
Four account balances of Rs. 5,561,575 of trade and other receivables which had been continued to exist from a period of 02 to 42 years in non-current assets had not been recovered.	A committee has been appointed to write off the receivable balances that continued to exist over a long period and to take legal action on debt and interest and to recover other balances.	Action should be taken to recover the receivables.

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
F.R.396 (d) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action had not been taken on 130 cheques worth Rs. 1,455,904 that had been issued, but not presented for encashing.	It is impossible to precisely identify the cheques that has expired 06 months.	Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.15,279,737 as compared with the corresponding surplus for the preceding year amounting to Rs. 18,878,424. Accordingly, a deterioration of Rs.3,598,687 was observed in the financial results. This deterioration was mainly due to the loss sustained by the Pallekele Farm.

2.2 Trend analysis of key income and expenditure items

Government allocations of Rs.189,790,000 had been received during the year under review, of which Rs.11,888,797 were saved after spending Rs Rs.177,901,203. Accordingly, the operating surplus of the year under review was Rs. 15,279,737, of which 78 percent consisted of savings from government allocations.

3. Operating Review

3.1 Management Inefficiencies

Audit Observations	Comment of the Management	Recommendation
Pallekele farm of the Authority had sustained a loss of Rs.7,187,961, while Kothmale farm had sustained a loss of Rs.994,271 during the year under review. Increase in the operating expenses exceeding sales income, non-utilization of resources at their maximum capacity and the wastes had contributed to the losses of these farms. No action had been taken to prevent these losses.	Not commented.	Losses should be prevented by properly managing income and expenditure.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
(a) Although the Hadabima Cooperative Society Limited had taken into its charge and utilized 204 units of items used by the sales unit of the Sri Lanka Hadabima Authority including, unassessed tables, chairs, shelves, computers and assembling machines and other equipment used for sales activities according to a Cabinet decision from 01 February 2019, approval of the Board of Directors had not been taken to hand over those items as per the Cabinet decision. Furthermore, the marketing building premises situated in Gatambe and Weligama were also being used by the Cooperative Society, approval of the Board of Directors had not been received therefor.	The Attorney General's Department has been consulted regarding steps to be taken in this connection.	Action should be taken in accordance with the Cabinet decisions.
(b) The building which had been constructed at a cost of Rs. 4,464,521 on a land situated in Warapitiya area in the year 2017 to open a shop remained unused and subsequently, a shop had been opened on 24 September of the year under review. A feasibility study had not been conducted for the relevant purpose and the Authority had granted Rs. 2,100,000 in the year under review and Rs.900,000 in 2023 on credit basis. However, the shop had sustained a loss of Rs. 508,137 as at the end of the year under review due to the lack of proper supervision.	The Authority possesses fixed assets worth Rs.2,239,491 of the Warapitiya shop.	Intended objectives should be implemented under a proper supervision after conducting a feasibility study.
(c) The land with 01 rood and 28.1 perches situated in Gannoruwa on which the main administrative building of the Authority is located and the Kothmale farm land with 05 acres had not been taken over by the Authority.	Not commented.	Arrangements should be made to take over the lands.