

**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 2023 comprising the statement of financial position as at 31 December 2023, the statement of financial performance for the year then ended, 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 Agrarian Research and Training Act No. 5 of 1972 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, 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 Institute as at 31 December 2023, 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 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 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, 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. However, future events or conditions may cause 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 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**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Contrary to paragraph 69 of Sri Lanka Public Sector Accounting Standards No.07, assets worth of Rs.1,804,500 purchased in the year 2024 and a depreciation expense of Rs.302,350 for that had been accounted in the financial statements of the year under review.	Accepted.	Only purchases related to the year should be accounted.
(b) Although the fully depreciated 20 motor vehicles costing Rs.71,753,647 were still in use by the company, it had not been disclosed in the financial statements in accordance with paragraph 92 (b) of Sri Lanka Public Sector Accounting Standard 07.	Accepted Action will be taken to account the estimated difference in this year.	Assets should be assessed and accounted.
(c) According to Sri Lanka Public Sector Accounting Standard No. 11, Rs.4,298,900 of grants received in the year under review and Rs.32,287,814 received in previous years had been accounted as capital reserves without adjusting the balance as revenue.	Paragraph 95 of Sri Lanka Public Sector Accounting Standard 11 will be further studied and necessary adjustments will be made.	Grants should be accounted as per standard.

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although the acquisition of fixed assets was Rs.4,594,039 under investing activities in the statement of cash flow, it had been stated as Rs.4,135,240 by overstating of Rs.458,799.	Accepted.	Correct values should be recorded in the statement of cash flows.
(b) The working capital had been increased by Rs.782,510 due to the difference in balances was calculated as Rs.4,820,600 in the cash flow statement after adjusting Rs.782,510 of provisions for bad debts although the difference in receivable balances was Rs.5,604,410.	Adjustments will be made as indicated by the audit in the future.	The balances before adjusting the provisions for bad debt should be shown in the cash flow statement.
(c) A non-current asset of Rs.136,687 purchased during the year under review had been accounted as machinery repair costs.	Accepted. It has been corrected.	Purchases of non-current assets should be accounted as assets.
(d) Rs.4,256,574 paid for salary and allowances of the Senior Research Officer of this institution who was appointed for the position of Vice President of the Paddy Marketing Board from 07 February 2020 to November 2022 had not been shown in the financial statements as receivable from the Paddy Marketing Board.	According to the approval given in the Governing Board meeting chaired by the Secretary of the Ministry, the officer was released on demand of the service by 50 percent and 90 percent of the service period from 2020/02/07 to 2022/11/20 and was released full time from 2022/11/21 to 2023/11/30. For the non-reimbursed period, the necessary activities are being carried out to reimburse as per the instructions of the Audit Committee of the Ministry.	Actions should be made for immediate recovery of the amount receivable.

### 1.5.3 Evidences not made available for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Detailed schedules for Rs.27,607,208 of wooden furniture and office equipment, Rs.34,413,533 of computer equipment and Rs.49,701,404 of buildings were not submitted to audit.	The available detailed information has been submitted for audit and these assets will be revaluated in this year and update the schedule by accounting the revalued values.	A detailed schedule should be submitted along with the accounts to prove the fixed assets.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivable Amounts

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The receivable amount of Rs.5,272,016 from an officer who left the institution in August 2021 was not recovered.	Rs.5,272,016 to be collected from Mr. E. A. C. Priyankara who left the institution for a lecturer position at Eastern University on 23 August 2021 has been initiated through the Attorney General's Department to recover the amount. The relevant documents for the case have now been completed.	The receivable amounts to the institution should be collected from the relevant officer immediately.
(b) Rs.12,693,448 out of Rs.17,965,464 of foreign scholarship debtor balance and Rs.2,192,602 out of Rs.24,387,625 of other debtor balance of had not been recovered for more than 05 years. Also, out of the payable account balance of Rs.28,959,096, a balance of Rs.2,365,048 had not been settled for more than 05 years.	The balance of Rs.12,693,448 coming from prior to the year 2002 is to be recovered from 06 foreign scholarship debtors. The proceedings of three of them have been completed and according to the judgments, the scholarship debtors have been ordered to pay relevant amount to the institution. Necessary settlement or recovery by property is being done for that. As the foreign addresses of the remaining three could not be traced, the case could not be pursued further. However, efforts are being made to contact the respective scholarship debtors through the relatives of these three.	The loan amount should be recovered according to the judgments and the remaining loan balance should be settled immediately.

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

	<b>Reference to Non-compliance Laws, Rules and Regulations</b>		<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	104(2) (b) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The biogas project started at a cost of Rs.1,067,150 in the year 2011 had been inactive since the year 2016 and, although it was concluded by the inspection report submitted on 23 June 2022 that the former director purchased the spare parts required for the project by violating the tender procedure and used them and engaging interfere to its operation with other officers, action has not been taken to recover those losses occurred.	The F.R.104 investigation has been done regarding the relevant biogas project and it will be forwarded to the next Audit and Management Committee for further action.	Actions should be taken to recover the losses incurred as per the F.R. investigation.
(b)	Section 2.2 of Chapter IX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Although 25 percent of the fees paid to the officer privately for the work done during office hours using the training received from the public service should be credited to the consolidated fund, even Rs.3,707,770 allowances have been paid for 38 officers of the institute from 2017 to 2022, Rs.926,943 of government contribution for that had not been deducted and not credited to the consolidated fund.	The estimated budget of the project is presented to the governing body. In that estimated budget, 7 percent - 15 percent of the research expenses are included as administrative expenses. If there is a balance after the completion of these projects, the balance will be distributed according to the Public Financial Circular 01/2020. In the distribution of this balance, payments will be made subject to the approval of the Governing Board as stated under Paragraph 7.2 of Section II of the Public Financial	As per the provisions of the Establishment Code, 25 per cent of the fee paid privately should be credited to the Consolidated Fund.

Circular 01/2020. In here distribution will be made as 75 percent to the employees who have contributed directly and indirectly, again 5 percent as overheads expenses and 20 percent of the company's contribution.

- (c) Section 6.3 of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka
- Although the investigation report of F.R.104 stated that the registrar should report to the board of directors regarding the reservations of rooms in his official residence to private parties contradictory to the Establishment Code, it had not been act accordingly.
- It was referred to the Audit and Management Committee chaired by the Secretary of the Ministry and the necessary disciplinary actions were taken according to the instructions given there, therefore it is not necessary to present the incident to the Governing Body again.
- Disciplinary action should be taken and entered into the personal file.
- (d) Asset Management Circular No.04/2022 dated 25 January 2022
- According to the annual survey reports of the year 2022, although the vehicles No.141-5655, 141-5672 and 141-5646 have been referred for disposal, the disposal had not been done by 31 December 2023 and although 02 jeeps numbered 32-4670 and 30-4342 were proposed for repair, which had been removed from running for more than 05 years, they had not been repaired and used effectively by the end of the year under review.
- The disposal activities will be carried out as soon as the report of the committee appointed for motorcycle disposal is received. Even though Jeeps Nos. 32-4670 and 30-4342 were proposed for repair, the repairs have been delayed due to lack of sufficient funds. Repairs are expected to be carried out based on available funding.
- Disposal and repairing activities should be carried out immediately.

## **2. Financial review**

### **2.1 Financial Results**

According to the financial statements submitted, the institute's operating result for the year under review was a surplus of Rs.16,128,359 and correspondingly the last year's surplus was Rs.5,391,622 and therefore an increase of Rs.10,736,737 in surplus of the year under review was observed compared to the previous year. The increases of income by Rs.29,141,960 and decrease of labor cost of employees by Rs.18,308,563 was mainly affected the growth of this financial result.

### **2.2 Ratio analysis**

Compared to the previous year, the current ratio decreased by 2.26 percent and the quick asset ratio increased by 0.24 percent.

## **3. Operating Review**

### **3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The lorry No.40-3933 received as a donation from the World Food Organization had not been taken over to the institution until the audit date of 31 December 2023.	That the World Food Department has been informed about that and the agency has informed that the necessary arrangements are being made to hand over the lorry.	The acquisition of the vehicle should be expedited.
(b) Rs.4,256,574 paid as salary and allowances for the senior research officer of this institution who was appointed for the position of Vice President of the Paddy Marketing Board from 07 February 2020 to November 2022 had not been shown as receivable amount from the Paddy Marketing Board in the financial statements.	According to the approval given in the Governing Board meeting chaired by the Secretary of the Ministry, the officer was released on demand of the service by 50 percent and 90 percent of the service period from 2020/02/07 to 2022/11/20 and was released full time from 2022/11/21 to 2023/11/30. Arrangements have been made to reimburse the salary paid for the period from 21/11/2021 to 30/11/2023 and for the non-reimbursed period, the necessary activities are being carried out to reimburse as per the instructions of the Audit Committee of the Ministry.	Action should be taken to collect salary and allowance receivable immediately.



- (c) According to the report dated 02 May 2019 of the committee appointed to identify the books to be disposed in the main book store, although 12,475 books worth Rs.2,191,598 were to be removed, due to not taking necessary actions by 31 December 2023, the books were being eaten by termites.
- As soon as the report of the relevant committee is received, its recommendations will be submitted to the governing body and further work will be done after obtaining approval.
- Disposal Board decisions should be made expeditiously.