

Hector Kobbekaduwa Agricultural Research and Training Institute - 2013

The audit of financial statements of the Hector Kobbekaduwa Agricultural Research and Training Institute for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and 24 of the Hector Kobbekaduwa Agricultural Research and Training Institute Act, No. 5 of 1972. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial statements

2:1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Hector Kobbekaduwa Agricultural Research and Training Institute as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2 Comments on Financial Statements

2:2:1 Accounting Policies

Even though the policy of the Institute is to apportion the total cost of fuel of the Institute among 03 Service Divisions at an approved percentage, that policy had not been disclosed in the accounts.

2:2:2 Accounting Deficiencies

The following observations are made.

- (a) The depreciation on furniture and equipment for the year under review had been overstated by a sum of Rs.656,365.
- (b) The expenditure on fuel amounting to Rs.275,033 incurred on 03 motor vehicles of the Ministry had been brought to account as the fuel expenditure of the Institute.

2:3 Accounts Receivable and payable

Even though conference hall facilities had been provided continuously to the Ministry of Agriculture, action had not been taken for the recovery of a sum of Rs.37,950 recoverable in respect of the year 2012.

2:4 Un reconciled Control Accounts

A difference of Rs.594,069 was observed at a reconciliation of the balances of 04 accounts shown in the financial statements with the balances in the schedules furnished with the financial statements.

2:5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with the following laws, rules, regulations were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
Financial Regulation 756	The Annual Board of Survey for the year under review had not been conducted.
(b) Circular No. 2004/LS/01 dated 26 January 2004 of the National Library and Documentation Services Board.	
(i) Paragraph 3.1	The Annual Board of Survey of the Library Materials for the year under review had not been conducted.
(ii) Paragraph 3.2	Even though a Board of Survey should be conducted three months prior to the transfer and the retirement of the person entrusted with the custody of library materials, such survey had not been conducted though the Librarian had retired on 21 May 2013.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.14,160,647 as compared with the corresponding deficit of Rs.17,157,210 for the preceding year. The financial results for the year under review, as compared with the preceding year, indicated an improvement of Rs.2,996,563.

3:2 Analytical Financial Review

Receipts from various parties in the form of cash and goods had been brought to account as capital reserves and the balance thereof as at end of the year under review amounted to Rs.40,700,838. Action had not been taken for the specific identification of assets generated from those grants and their value. An accounting policy for amortization of the capital grants had not been introduced.

4. Operating Review

4:1 Performance

Forty four projects comprising 28 projects of the year under review, 14 projects of the year 2012 and 02 projects of the year 2011 had been implemented during the year. Out of that 43 projects had been stated as completed in the year under review. Action had not been taken to publish 25 reports relating to those researches.

4:2 Management Inefficiencies

The following observations are made.

- (a) After the expiry of the service period of the security service institution that provided security services to the Institute, an extension for further 22 months had been granted and after the expiry of that period, security services for one month had been covered irregularly by the payment of salary amounting to Rs.110,400 to 18 junior employees of the Institute.
- (b) The former Director had not returned a camera and dongle valued at Rs.92,090 issued to him.

4:3 Staff Administration

- (a) The approved and the actual staff had been 235 and 164 respectively and as such vacancies in the staff had been 30 per cent of the approved staff.
- (b) The Registrar of the Institute had been vacant over a period exceeding 03 years from 03 January 2011 up to 31 May 2014, the date of audit.

5. Accountability and Good Governance

5:1 Budgetary Control

The variances between the budgetary forecasts of the budget for the year under review and the actual amounts ranged between 27 per cent and 347 per cent. Accordingly the budget had not been made use of as an effective instrument financial control.

5:2 Unsettled Audit Paragraphs

The following observations are made.

- (a) Even though a motor vehicle belonging to the World Food Programme had been given to the Institute in the year 2011, the transfer of its legal ownership had not been effected.
- (b) Academic leave for two years with pay had been approved for 02 officers of the Institute during the year 2006. The academic period had to be extended up to 30

November 2013 as they had not completed the academic work. Even though the Assistant Registrar (Programmes) had informed by letter dated 15 August 2013 that a fresh bonk should be signed for that purpose, the scholarship holders had neither signed a fresh bond nor completed the academic work.

- (c) The value of bonds recoverable as at the end of the year under review amounted to Rs.10,651,222 due to the delay in taking legal action for the breach of bonds by 05 scholarship holders who had followed postgraduate courses in foreign Universities.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Financial Administration
- (b) Research Projects
- (c) Assets Control
- (d) Staff Administration