

Hector Kobbekaduwa Agrarian Research and Training Institute - 2014

The audit of financial statements of the Hector Kobbekaduwa Agrarian Research and Training Institute for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Section 24 of the Hector Kobbekaduwa Agrarian Research and Training Institute Act, No. 05 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 judgment, 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 opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the 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 2014 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

An Accounting Policy for amortization of Capital Grants had not been introduced.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) If an asset further remains in usable condition, that asset can be revalued to indicate its fair value. However, 08 motor vehicles identified by the Board of Survey and remained in unusable condition had been revalued at Rs. 1,081,000 and provisions for depreciation amounting to Rs. 216,000 had been made thereon in the year under review.
- (b) Even though the cash flow statements should be prepared by identifying activities so as to reflect the cash inflow and outflow during the year, the following weaknesses were observed in the cash flow statement presented.
 - (i) The surplus as a result of revaluation of motor vehicles not relating to the cash movement amounting to Rs. 35,003,646 and the value of accumulated depreciation of those motor vehicles amounting to Rs. 29, 330,113 had been considered as cash inflow and cash outflow respectively.
 - (ii) The computers and accessories valued at Rs. 5,238,008 received from a project in the year under review had been shown as cash receipts in the cash flow statement.

2.2.3 Un-reconciled Control Accounts

A difference of Rs.854,272 was observed in the reconciliation of the balances of 03 accounts shown in the financial statements with the balances in the schedules furnished with the financial statements.

2.3 Accounts Receivable and Payable

The total of the debtors and creditors balances existing over a period of 5 years had been Rs. 20,345,302 and 1,079,446 respectively and an effective arrangement had not been implemented for settlement of those balances.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Public Finance Circular No. 449 of 21 February 2011 Paragraph 02 (a)(e)	Even though the maximum allowance which can be paid for services rendered by an outside person when an eligible person is not available with the Institute had been Rs. 30,000, a sum of Rs. 40,000 had been paid to one person and the prior approval of the Department of Public Finance had not been obtained.

- (b) Paragraph 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003
- It was observed that a fuel expenditure amounting to Rs. 484,768 had been incurred by the Institute for 02 motor vehicles released to the Ministry and 05 vehicles owned by the Ministry.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a deficit of Rs.11,411,965 as compared with the corresponding deficit of Rs.14,160,647 for the preceding year. Increase in the Treasury Grants by Rs. 2,947,197 had mainly attributed to the increase of Rs. 2,748,682 in the financial result for the year under review, as compared with the preceding year.

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.45,938,855. Action had not been taken for the specific identification of assets generated from those grants and value thereof.

4. Operating Review

4.1 Performance

The total number of research projects implemented from the year 2009 to the end of the year under review had been 125 and out of that, reports of only 51 projects had been published by the end of the year under review. Even though 63 projects had been

completed, reports thereof had not been published and the number of projects abandoned amounted to 04. It was observed that 07 projects had not been completed further. It was observed in audit that the objective of giving the result of the researches to the society on timely basis is not fulfilled due to the delay in publishing the final reports of the researches.

4.2 Management Inefficiencies

The following observations are made.

- (a) A camera and a dongle valued at Rs.92,090 issued to the former Director had not been returned to the Institute.
- (b) The Institute had not introduced a proper methodology in selecting officers for foreign seminars, workshops and scholarships. Further, approval had been granted to two officers to go abroad on personal invitations received to them and incidental and combined allowances amounting to Rs. 177,767 had been paid to them.

4.3 Fruitless Expenditure

A motor vehicle had been repaired without a guarantee in September 2013 and a sum of Rs. 84,200 had to be spent in the year under review due to faults in repairs. As such, expenditure amounting to Rs. 66,458 incurred initially had become a fruitless expenditure.

4.4 Personnel Administration

- (a) Even though the approved cadre had been 235, the actual cadre had been 173 thus indicating 62 vacancies.

- (b) The post of Registrar of the Institute had been vacant over a period exceeding 04 years from January 2011 up to 31 May 2015, the date of audit. A Senior Assistant Secretary from the Line Ministry is serving on acting basis since February of the year under review and a sum of Rs. 105,957 had been paid as salaries as well in the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

The budget submitted for the year under review had been revised again on 08 December 2014 based on the actual expenditure as at 30 November of the year under review. The budget cannot be accepted in audit as an instrument of control made use for the financial management of the year due to the revision made at the end of the year under review.

5.2 Unsettled Audit Paragraphs

Cases had been filed against 10 Scholarship Holders who breached the bonds and followed postgraduate courses in Foreign Universities and it was observed that there was an uncertainty in the recovery of a sum of Rs. 8,539,799 from 06 Scholarship Holders of them.

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 Control
- (b) Research Projects
- (c) Assets Control
- (d) Personnel Administration