

**Financial Statements**

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**1.1 Opinion**

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The audit of the financial statements of the Hector Kobbekaduwa Agrarian Research & Training Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and statement of changes in equity and cash flow statement for the year then ended and notes to the Financial statements and a summary of significant accounting policies, was carried out under my direction in pursuance of provisions of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with provisions of the National Audit Act No. 19 of 2018 and provisions of the 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, the financial position of the Hector Kobbekaduwa Agrarian Research & Training Institute as at 31 December 2018 and of its financial performance and its cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Opinion**

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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 Financial Statements**

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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 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 Sub 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**

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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 great 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 Institute'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 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 Board of Governors 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 Financial Statements

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### 1.5.1 Internal Control over the preparation of financial statements

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Accounts Receivable

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Audit Observation	Comments of the Management	Recommendation
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(a) Follow-up action in recovery of debtor balance totalling Rs.285,765 outstanding for more than 05 years as at the end of the year under review had been in a poor condition.	No comments.	Action should be taken to recover the debtor balances.

(b)	Action had not been taken to recover amounting to Rs.111,921 receivable from a research project.	No comments.	The receivable amount from the research project should be recovered.
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**1.6.2 Accounts Payable**  
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Audit Observation -----	Comments of the Management -----	Recommendation -----
Action had not been taken to settle totalling Rs.377,483 payable coming for more than 05 years as at the end of the year under review.	No comments.	The creditors balance should be settled.

**2. Financial Review**  
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**2.1 Financial Result**  
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According to the financial statements presented, operating result of the Institution for the year under review was a deficit of Rs.2,301,132 when compared with the deficit of Rs.2,732,399 of the previous year. Accordingly, an improvement of Rs.431,267 had been observed in the financial result. The main reason attributed to this improvement was the increase of Government Grant by Rs.21,910,000.

**3. Operation Review**  
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**3.1 Management Inefficiencies**  
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Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The bio gas unit installed at the cost of Rs.1,031,020 during the period 2012-2015 had been inoperative since 2016 and the machine in the unit had become unusable position as action had not been taken to repair the same.	But, under the current situation it had to spent a higher cost to restore the system. The committee had decided on 4 March 2019 that it would not be economically feasible to maintain the system to produce biogas as most of the components were not in functional position and had to be repurchased those item.	An examination should be carried out to identify the officers who had delayed the repairs.

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| (b) | According to the Action Plan 09 research projects started in the years 2015 and 2016 by spending Rs.6.2 million and 04 research projects started in 2017 by spending Rs.3.4 million should be completed by the end of the 2015, 2016 and 2017 respectively. However, since the research were not completed by 31 December 2018, it was unable to obtain any benefits from the money spent on research. | Nine research projects commenced in 2015 and 2016 and 04 projects commenced in the year 2017 were not completed yet. Part of the projects had been completed and deadlines had been given to complete the remaining projects. These projects are being monitored at the Research Management meeting and achieved a progress by now.   | Comply to the Action Plan.   |
| (c) | Action had not been taken to recover the value of bonds amounted to Rs.15,387,897 as at 31 December 2018 not returning nine officers who went abroad for scholarships.   | Scholarship recipients are listed in connection with the Surety Bonds issued by the Institute from 1975 to 2003. However, after the years 2000 no such debtors have been reported from the Institute.   | Bond receivables should be recovered.  |
| (d) | Disciplinary action had not been taken against a lady officer to submit the forged certificates and act as the Registrar.  | The Commission to Investigate Allegations of Bribery or Corruption (CIABOC) is conducting an inquiry against the accused lady officer and no inquiry had been conducted by the Institute. As per the instructions given at the Audit Management Meeting of the Institute, action will be taken in the next few weeks to conduct an inquiry and make recommendations to the Board. | Disciplinary action should be taken to the relevant officer.                                     |
| (e) | A cassette recorder, camera, teak dining table and staff chair, which were purchased at a cost of Rs.230,125 in the year 2014 were not available at the Institute during the course of audit on 18 May 2018.   | Even though, Purchases were made in the year 2014 those items not delivered to the main stores. Even though these items were available in the institution, there is no documentation to confirm the purchase in 2014.   | The physical existence of the purchased items, should be submitted to the audit for examination. |

#### 4. Accountability and Good Governance

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##### 4.1 Annual Action Plan

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to the action plan, it was planned to train 2000 women farmer leaders by conducting 20 Programs in Kurunegala and Anuradhapura Districts under the Women's Empowerment Training Program expending Rs.900,000. However, there were only 20 programmes were conducted in the district of Anuradhapura by spending Rs.907,000 and not a single programme conduct in the Kurunegala District	In support of the National Food Production Program and the special request made by the Anuradhapura District, 20 programs were conducted covering all the Agrarian Service Centers in the Anuradhapura District and 1,848 lady farmer women leaders had been trained very successfully. 10 programs were held in the same district in the last year.	The activities outlined in the action plan should be executed as planned.

##### 4.2 Audit Committee

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The Audit Committee Meetings should be held at least once in 03 months according to the Public Enterprises Circular No.PED/55 dated 14 December 2010, nevertheless, the Institute had conducted 3 meetings in the year each 2017 and 2018.	Even though, Audit and Management Committee Meeting were held in every quarter of the year 2018, it had been planned to conduct the 4 <sup>th</sup> meeting during the month of December. But, it cannot be held in December as planned. Action will be taken to held Audit and Management Committee Meetings in the year 2019 properly.	Action should be taken to hold Audit Committee Meetings properly.