

Sri Lanka Hadabima Authority – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Hadabima Authority of Sri Lanka (*Sri Lanka Haritha Danaw Bim Sanvardana Adikariya*) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 report to Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the **Hadabima Authority of Sri Lanka (*Sri Lanka Haritha Danaw Bim Sanvardana Adikariya*)** as at 31 December 2018, and of its financial performance and 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 based 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 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 Scope of Audit (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 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 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 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 Institute
- 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
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(a) In terms of Sri Lanka Public Sector Accounting Standard 02, out of the value of property, plant and equipment acquired during the period , the value of the acquisitions made from the Government Capital Grants and the value paid in cash had not been separately stated.	Action will be taken to correct this error in future.	Action should be taken to prepare financial statements in terms of the Standard.

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| (b) | In terms of Paragraphs 20 and 27 of Sri Lanka Public Sector Accounting Standard 06, although the sales project owned by the Hadabima Authority had been registered as “Hadabima Cooperative Society Ltd.” on 23 January 2019, action had not been taken to make disclosures thereon in the financial statements 2018. | Action will be taken to correct this error in future. | Action should be taken to prepare financial statements in terms of the Standard. |
| (c) | <u>Sri Lanka Public Sector Accounting Standard 07</u> | Action will be taken to correct this error in future. | Action should be taken to prepare financial statements in terms of the Standard. |
| (i) | Although the Isuzu Lorry bearing No.W.P.L.E.8567 had been revalued at Rs.3,500,000 in the year 2018 as per the Paragraph 42, adjustments had not been made thereon in the accounts. | | |
| (ii) | Contrary to the Paragraph 69, the partly completed trade stalls building situated at Ingiriya had been brought to account under the fixed assets at Rs.5,568,974 without being credited to the Work-in Progress Account and a sum of Rs.642,673 had been depreciated from the year 2015 to 2018. | It was brought to account since it had been identified as an asset. | Action should be taken to prepare financial statements in terms of the Standard. |

1.5.3 Accounting Deficiencies

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Sixteen vehicles costing Rs.51,854,660 had been revalued at Rs.47,200,000 during the year under review and out of the accumulated depreciation value thereof amounting to Rs.49,972,134, a sum of Rs.48,074,634 had been eliminated. Hence, the Accumulated Depreciation Account had been overstated by Rs.1,597,500 and the Revaluation Account had been understated by that amount.	Action will be taken to correct the error.	Revaluation should be correctly brought to account.

- (b) A sum of Rs.1,696,741 receivable relating to financial frauds had been brought to account as vegetable debtors. Action will be taken to correct the error. Action should be taken to identify the responsible parties and to account the values and disclose the same in the financial statements.
- (c) Action had not been taken to settle 02 reserve balances of Rs.1,081, 413 continued to exist from the year 1978. Necessary information is being ascertained for the confirmation of the balance. The relevant reserves should be looked into and action should be taken to write off them from the accounts if further continuation of those reserves is not needed.

1.5.4 Un-reconciled Control Account or Reports

Item	Value as per the financial statements	Value as per the corresponding reports	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
<u>Sri Lanka</u>					
<u>Hadabima Authority</u>					
National Savings Bank, Kandy	1,818,303	685,590	1,132,713	Action will be taken to correct the error.	When the differences occurred, those differences should be ascertained and action should be taken to make corrections.
People's Bank, Peradeniya	424,741	440,552	15,811		
<u>Marketing Project</u>					
Regional Development Bank, Peradeniya	1,322,520	931,309	391,211		
People's Bank, Peradeniya	500	2,058	1,558		
Fixed Deposits-12	6,203,945	5,848,889	355,056	Accepted.	-Do-

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
<p>a) Establishments Code of the Democratic Socialist Republic of Sri Lanka</p> <p>-----</p> <p>Sub-section 3.1 of Chapter II, and Chapter 5 and Chapter 2 of the Procedural Rules.</p>	<p>Without being published newspaper advertisements to fill vacancies from the year 1989, the Executive Director had been recruited on secondment basis.</p>	<p>Service of the Executive Director has been obtained with the approval of the Public Service Commission.</p>	<p>Action should be taken to make recruitments by publishing vacancies.</p>
<p>b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</p> <p>i. Financial Regulation 103-110</p>	<p>A number of 675 chicks worth Rs.158,910 had died during the year under review and plants worth Rs.11,300 had been destroyed. Nevertheless, action had not been taken according to the Financial Regulations in respect of those losses and damages.</p>	<p>Action will be taken to ensure prevent these incidents in future.</p>	<p>Action should be taken in accordance with the Financial Regulation.</p>
<p>ii. Financial Regulation 104 (2)</p>	<p>The Cab bearing No.P.G.-0134 had met with an accident on 18 December 2018 and that loss had not been reported to the Auditor General.</p>	<p>This will be corrected in future.</p>	<p>Action should be taken to submit relevant reports to the Auditor General.</p>

- iii. Financial Regulation 396 Action had not been taken according to the Financial Regulation in respect of 603 cheques worth Rs.3,358,718 relating to 02 accounts of the Authority that had been issued before a period ranging from 06 months to 04 years, but not presented for payments even as at 31 December 2018.
- Action is being taken in accordance with the Financial Regulation 396 and reminders have been sent in respect of the cheques which had not been encashed.
- Action should be taken in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Results

The operations of the Authority for the year under review had resulted in a deficit of Rs.5,516,879 as against the corresponding surplus of Rs.684,322 for the preceding year, thus observing a deterioration of Rs.6,201,201 in the financial results. This improvement was mainly attributed to the decrease in the profit of the trade stall by 80 per cent and increase in the loss of the Authority by 76 per cent.

Ratio Analysis

- 2.2 (a) The net profit ratio of the trade stall in the year 2017 was 3.86 per cent, whereas it had decreased up to 0.80 per cent during the year 2018.
- (b) Although the ratio of the waste in relation to the purchases stood at 2.9 per cent in the year 2017, it had increased up to 3.6 during the year 2018.

3. Operating Review

3.1 Unauthorised Transactions

Audit Observation	Comments of the Management	Recommendation
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There was a difference of Rs.781,946 between the loan balance receivable to the trade stall from the Hadabima Authority and the loan balance payable to the trade stall as per the accounts of the Authority since a period of 02 years.	Action will be taken to make corrections.	Action should be taken under a proper supervision.

3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
(a) According to the financial statements of the Land Reformation Commission, there was a receivable balance of Rs.54,912,000 from the Hadabima Authority as at 31 December of the year under review, whereas according to the financial statements of the Authority, a sum of Rs.2,094,280 had been stated as a receivable balance, but not as a balance payable to that Commission.	Recommendations of the Ministry have been received to write off that amount from the books and action is being taken in that connection.	Amounts should be correctly accounted.
(b) A sum of Rs.1,696,741 had been paid for the purchases relevant to the sale activities of the Marketing Division during the year 2014 and 2015, that had not been made and a sum of Rs.575,000 had been recovered from the parties responsible for that incident. The amount so recovered had been stated as an amount payable to the Marketing Division in the final accounts of the Hadabima Authority. The total recoverable amount of Rs.1,696,741 had been stated under the debtors balance of the Marketing Division. Even though a period of five years had elapsed, no action had been taken against the relevant officers or to recover the balance sum.	Due to legal proceedings, only the recovered amount has been shown in the accounts of the Hadabima Authority without adjusting the net value.	Correct disclosures should be made in the financial statements and the dues should be expeditiously recovered.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
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Action had not been taken to acquire the land in which the partly completed trade stall building constructed at a cost of Rs.5,999,835 in the year 2014 is situated and to use the same.	Action is being taken to vest this land in the Sri Lanka Vocational Training Authority functioning under the purview of the Ministry of Skills Development and Vocational Trainings.	Action should be taken either to use the assets for the intended purposes or properly vest in them, if not required.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
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(a) A Master Procurement Plan at least for a period of 03 years had not been prepared even by 30 January 2019 as required by Guideline 4.2 of the Government Procurement Guidelines .	This will be taken to corrected this in future.	Plan should be prepared in accordance with the Guidelines.
(b) According to the procurement plan, the actual expenditure of the amount allocated for the packing materials showed an unusual increase in 213 per cent.	Expenditure increased with the increase in the prices.	Action should be taken to timely evaluate the Procurement Plan and make the necessary amendments.

3.5 Utilization of Resources Owned by other Organizations

Audit Observation	Comments of the Management	Recommendation
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Without being properly acquired two land units one of which valued at Rs.156,750,000 and the value of the other was not presented and a building, the Authority had been using them over a long period.	Assessment reports had not been received and they are being used on temporarily basis.	Action should be taken to properly vest in lands.

3.6 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) According to the approved cadre and the actual cadre as at 31 December 2018, there were 11 vacancies in 08 posts of the Authority and 05 vacancies of 02 posts of the Sales Project. Nevertheless, action had not been taken to fill those vacancies.	Recruitments will be made once the approval is received.	Action should be taken to fill the vacancies.
(b) Without being published the vacancies, 20 officers had been recruited to 03 posts of the Marketing Division in the year 2018.	Since this has been registered as a cooperative society, this issue may not crop up in future.	A specific methodology should be established.

4. Accountability and Good Governance

4.1 Tabling Annual Report

Audit Observation	Comments of the Management	Recommendation
In terms of Paragraph 6.5.3 of the Public Enterprises Circular No.12 dated 02 June 2003 of the Director General of Public Enterprises, the Auditor General's Report together with the financial statements audited last should be tabled in Parliament within 150 days from the close of the financial year. Nevertheless, action had not been taken to table the reports pertaining to the period from the year 2015 up to 2017 even by August 2019.	Reports relevant to the years 2015 and 2016 have been forwarded to Parliament. The draft report of the year 2017, too, has been referred.	Action should be taken to table reports within the due period.

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
----- Action had not been taken to obtain approval for exceeding the estimates from 13 per cent to 109 per cent relating to 06 Recurrent Objects.	----- Observation is accepted	----- Action should be taken to obtain relevant approval.

4.3 Audit Committee

Audit Observation	Comments of the Management	Recommendation
----- Action had not been taken to conduct 02 Management Committees as required by Paragraph 7.4.1 of the Circular No.PED/12 dated 02 June 2003 of the Director General of Public Enterprises.	----- Action will be taken to prevent this incident in future.	----- Action should be taken in accordance with the Circular.

4.4 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
----- Even though the Authority had focused attention on 05 sustainable development goals relating to the year in terms of United Nations “Agenda 2030” for Sustainable Development Goals, action had not been taken to identify the target based data, milestones to be reached the goals and the indicators to evaluate the progress of the process.	----- Not replied	----- Action should be taken to identify the indicators.