

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 2022 comprising the statement of financial position as at 31 December 2022, 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, The 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 2022, 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. Accounting deficiencies

Audit Observation	Management Comment	Recommendation
(a) The value of a computer worth Rs.742,000 donated by a former director of the institute was incorrectly shown in the statement of cash flows as a purchase of fixed assets under investing activities and as a receipt of capital grant under financing activities.	Even though cash flow of purchase of fixed assets in the statement of cash flow shown as Rs.2,107,135, it also includes the grants of goods. The correct figure is Rs.1,381,469. Capital financial grant under financial activities should be corrected as Rs.579,100.	Only cash basis transactions should be accounted while preparing the statement of cash flow.
(b) Salary of Rs. 4,327,214 that paid in the years 2020, 2021 and 2022 to a Senior Research Officer who has been fully released to the Paddy Marketing Board from 07 February 2020 had not been reimbursed by the Paddy Marketing Board and had not been disclosed in the accounts as receivable.	Agree. Hector Kobbekaduwa and Paddy Marketing Board are government agencies belonging to the Ministry of Agriculture and no decision has been taken by the governing body regarding the payment or reimbursement of salaries. Nevertheless, according to the decision of the governing board held in November 2022, the governing board has approved the reimbursement of the relevant salary from November 2022. Accordingly, arrangements have been made to reimburse the relevant amount from the Paddy Marketing Board.	Arrangements should be made to recover the salaries from the released officers.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) Even though a senior research officer has returned to work after go abroad on 02 years paid study leave and another 02 years unpaid study leave from the year 2011 to pursue a Ph.D	The Senior Research Officer has been informed in writing to pay the relevant amount. For further instructions on this, a board paper will be submitted to the next board	The amount to be collected from the officers who have gone for foreign scholarships due to

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| <p>course, On failure to complete the Ph.D degree within the stipulated period as per the agreement an issue degree certificates, the bond value of Rs. 9,039,682 entered into by him with the institute had not been charged.</p> | <p>meeting.</p> | <p>the breach of the agreement should be collected immediately.</p> |
| <p>(b) The agreement entered into by a senior research officer with the institute to study the postgraduate course of University of Sri Jayewardenepura did not specify the time period for completing the degree course and even though 07 years have been passed for the degree which commence on 01 April 2016, due to the degree has not been completed and the certificate has not been submitted to the institution by the end of the year under review, Rs. 223,500 course fee had not been recovered.</p> | <p>The Senior Research Officer has been given additional time to complete Ph.D. If she fails to complete the relevant degree within that period, the allowances and salary increments paid to her will be recovered.</p> | <p>The officers who did not complete the degree within the prescribed period should be charged promptly for breach of contract.</p> |
| <p>(c) Even though the it should complete the degree and serve the institution for a minimum of 10 years according to the agreement which a research officer had been entered with the institution while taking a 3-year study leave for to pursue a Ph.D degree from a university in China, after serving for two years, he had been released from the duties of the institution 25 April 2022 for the position of lecturer at the Eastern University on the approval of the director dated 29 March 2022. Nevertheless, the amount of Rs. 5,272,016 to be charged from him to the institution had not been charged by the end of the year under review.</p> | <p>As the research officer has left the institution before the completion of the stipulated period according to the guarantee bonds and agreements, Even though he has been informed to pay the amount due to the institution as per the agreement, the amount has not been paid by now. It has been referred to the Attorney General's Department for further proceedings to file a case against him to recover the amount from him.</p> | <p>It should be recovered the amount due to the institution from the officers who gone for foreign scholarships and returned but non-completed the prescribed service period.</p> |
| <p>(d) An amount of Rs. 12,859,882 that to be collected from 06 officials has been in existence for more than 10 years in the Rs.18,131,898 of foreign scholarship debtor balance as on 31 December of the year under review and no action had been taken to recover the amount.</p> | <p>As of 31 December 2021, the amount of Rs.12,859,881 of 06 foreign scholarships debtors who coming from the year before 2002 had to be charged. Due to not being able to find the current addresses of 05 officers, it is not possible to take further steps to recover the debt and It will be</p> | <p>Receivables should be collected promptly.</p> |

proceed to collect the amount due from the other officers according to the judgment given on 23.11.2011.

- (e) Any action had not been taken to recover the amount of Rs 8,895,470 that should be charged for the rental of rooms in the hostel to the security officers of Minister for the period from May 2015 to July 2018. According to the verbal order of the former Minister of Agriculture at that time, hostel rooms were provided for the security officers of Minister and no invoice was issued for that. It has also been difficult to find the information of the officers who have taken the relevant accommodation and it has not been possible to find the responsible officials who should recover the money. These rooms were provided as per the verbal instructions given by the former Director at that time. Receivables should be collected promptly. The register maintained by the hostel should include and maintain the detailed information of the officers or employees who take the accommodation.
- (f) According to the recommendation of formal disciplinary investigation committee regarding the misplacement of NIKON D 3100 type camera owned by the institution, even though its total loss of Rs. 29,086 has been recommended to bear by the former director, any action had not been taken to recover the said amount. According to the F.R.104 investigation, the former director has been named as responsible for that. He was informed about this on several occasions and no response has been given so far. The receivable amount from him is Rs. 29,086 and It will be expected to deal with the law and take steps to recover that in the future. Receivables should be collected promptly.
- (g) The balance of Rs. 737,423 in other debtors balance has existed for a period of 05 years and no action had been taken to recover the amount. The receivable to be received from the Mobitel institute has been agreed to pay promptly. It will be presented the hostel income, the auditorium income and the income to be received from the Ministry of Public Administration to the audit and management committee to be held in the future and, action will be taken to take recommendations for further action. The Attorney General's Department has been directed to recover the receivables of the employees who left the company. Receivables should be collected promptly.

1.7 Non-compliance with laws, rules, regulations and management decisions etc.

	Reference to laws, rules, regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 5.1 of Chapter xv of the Code of Establishments of the Democratic Socialist Republic of Sri Lanka	Even though an officer who goes abroad on leave without pay for more than one month including the minimum time taken for travel for study or training should enter in to an agreement that, it shall return to work after the leave and shall serve the government for a period equal to twice the period without pay taken by him, it had not been entered in to an agreement with the officer who had gone abroad to pursue a course of post-graduate in the UK for a period of one year from 25 September 2021 to 10 September 2022.	As the research officer has resigned from the service and did not sign the guarantee bonds and agreements, a part of the amount receivable from him as per the provisions of the Code of Establishments has been recovered (out of the gratuity amount) and Rs. 71,206 of another amount payable to the institution is remained. He has been informed to pay the said amount and if the relevant amount is not paid, it will be recovered as per law.	The relevant amount should be recovered from the officers or guarantors. Such mistakes should not be repeated.
(b)	Section 5.8 of Chapter xix	Due to the disconnection of the water supply of the quarters of Registrar by the Water Supply and Drainage Board on 14 May 2018, although the institute had provided supplies to the quarters and paid the fees to the drainage board from that date, the amount paid by the institute from 14 May 2018 to 31 December 2022 had not been reimbursed from the relevant officer.	New electricity and water meters have been installed for 02 quarters and, have been recovered from the relevant officer as per due.	Actions should be taken to recover the amounts owed to the government for the unpaid electricity and water from the officers who use the quarters.
(c)	Financial Regulations of the	According to the tender board report submitted on 23 June 2022 after an	As per the instructions of the Board of governors, it was	The committee investigation report should be taken up

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| Democratic Socialist Republic of Sri Lanka. | investigation about the inactivity of Rs. 1,067,150 biogas project since 2016, while it has been concluded that its operation has been interrupted due to purchasing and use of spare parts by the former director and other officers also together by violating the tender procedure. The action had not been taken to recover those losses. | informed to obtain an estimate report for the repairs required for the re-operation of the biogas project from the company that carried out the relevant projects and accordingly the said company has submitted an estimate report. That report will be forwarded to the Board of governors and further actions will be done according to the instructions of the Board of governors. | without delay and its recommendations should be implemented. |
| (i) F.R.104 | | | |
| (ii) F.R. 1646 | The monthly summaries of the running charts related to 07 vehicles had not been submitted to the Auditor General. | Monthly summaries and daily running charts have been submitted to the Auditor General as per F.R.1646. | Monthly summaries should be submitted to the Auditor General as per the Financial Regulations. |

2. Financial review

2.1 Financial Results

According to the financial statements submitted, operating result of the institute for the year under review was a surplus of Rs. 5,391,622 and correspondingly the surplus of the previous year was Rs. 12,133,601. Therefore, a decrease of Rs.6,741,979 in surplus of the year under review was observed compared to the previous year. Increase of other expenses by Rs. 10,250,745, expenses for research and training purposes by Rs. 5,135,144 and the increase of salaries and wages by Rs. 9,447,716 had mainly affected to this financial result.

2.2 Trend analysis of major revenue and expenditure Objects

When comparing the year under review with the previous year, government grants and capital grants had increased by 3.6 percent and 66.7 percent respectively and other incomes had increased by 32 percent and funds received from other parties for research and training activities had also increased by 735.6 percent. Similarly, research and training expenses by 66.7 percent, research and training expenses for other parties by 735.6 percent and other expenses by 36.2 percent had been increased.

2.3 Ratio analysis

Compared to the previous year, the income surplus ratio has decreased by 3.7 percent and the current ratio and quick assets ratio have decreased by 0.23 percent and 0.17 percent respectively.

3. Operational review
3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
03 vehicles and 04 motorcycles which have been taken out of service had not been repaired and used or, disposed according to the Asset Management Circular No. 04/2022 dated 25 January 2022.	It has been decided to repair the 03 vehicles that have been taken out of the company's running and it is expected to gradually repair the vehicles according to the amount of provisions received. Out of 04 motorcycles, one motorcycle is in running condition and the remaining 03 motorcycles are being disposed.	These vehicles should be repaired and used or disposed if they cannot be repaired.