

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hadabima Authority Of Sri Lanka(Haritha Danaw Land Development Central Authority of Sri Lanka) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Company give a true and fair view of the statement of financial positions as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with Si 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 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 Authority's financial reporting process.

As per Section 16 (1) of the National Audit Act No.19 of 2018, the Authority 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 Authority.

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 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 company 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 company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the company has complied with applicable written law, or other general or special directions issued by the governing body of the company;
- Whether the company 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 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant Standard	Comments of the Management	Recommendation
(a) According to Section 76 of Sri Lanka Public Sector Accounting Standard No.01, the total Rs.8,575,612 of trade and other receivables to be shown under the current assets in the statement of financial position had been shown under non-current assets and Rs.2,575,655 of disaster and special loans and Rs.442,225 of telephone loan balance to be shown under the non-current assets had also been shown under current assets.	That it has been shown in the financial statement as non-current assets as the duration is more than one year in calculation.	Public Sector Accounting Standards should be followed.
(b) According to Section 80 of Sri Lanka Public Sector Accounting Standard No.01, a total Rs.15,218,592 of 08 liabilities in current form had been shown under non-current liabilities.	That all the trade payables are from the year 2014 and since the period is more than one year, it was shown in the financial statement as non-current liabilities.	Public Sector Accounting Standards should be followed.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) During the correction of depreciation of Rs.5,748,638 which was understated in financial statements of the last year, it had been debited to the accumulated	That it will be settled in the final account of the year 2024.	It should be properly accounted.

profit account without debiting the government grants account in the year under review.

- | | | | |
|-----|--|---|---|
| (b) | Although the sum of 3906 units of agricultural inputs as on 31 December of the year under review according to inventory register was Rs.7,091,310, it had been overstated by Rs.1,940,419 since it was accounted as Rs.9,037,729. | That it will be settled through the final account of the year 2024. | It should be properly accounted. |
| (c) | An agreement was reached with the Central Engineering Services (Private) Institute (CESL) regarding the poultry farming and domestic cultivation of the Pallekele farm belonging to the authority and although there was an agreement that the accounts and administration work would be done by the authority and the profits would be shared as agreed, 1245 parent cocks and hens amounting Rs.3,237,000 purchased by the relevant private institution were accounted as a receipt of the authority under income and fixed assets and, Rs.348,597 of stores materials had been accounted under stock. Also, although the profit here should be distributed by agreement between the two institutions, the total profit of Rs.507,274 which was calculated without such agreement was considered and accounted as the profit of the authority. | That the joint accounting activities will be carried out according to correct and formal agreements in the year 2024. | Profit should be recognized and accounted in accordance with the agreement. |
| (d) | The 3498 eggs worth Rs.176,680 in the incubators as of 31 December of the year under review had not been accounted. | That the action will be taken to correctly account in the year 2024. | It should be properly accounted. |

1.5.3 Written Evidences not made available for Audit

Audit Observation	Comments of the Management	Recommendation
Due to non-submission of schedules, balance confirmation letters, documents related to 08 account balances of the total Rs.2,096,724 shown in the financial statements at the end of the year under review could not be effectively verified during the audit.	They are coming from the beginning of the authority and they have not yet been properly identified.	Documents, schedules and balance confirmation letters should be submitted.

1.6 Receivables

Audit Observation	Comments of the Management	Recommendation
The 07 receivable balances amounting to Rs.6,860,506 shown in the financial statement as at the end of the year under review had not been recovered for a period between 02 years and 42 years.	Although letters have been sent to the Land Reforms Commission, they have not yet received a proper answer.	Actions should be taken to recover the receivables.

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

Audit Observation	Comments of the Management	Recommendation
A current account had been opened for the Warapatiya Sales Center without obtaining Treasury approval as per Financial Regulations 381 of the Democratic Socialist Republic of Sri Lanka.	That the approval of the Board of Directors has been obtained for that.	Financial Regulation should be followed.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.57,991,050 and the corresponding surplus of the previous year was Rs.15,279,737. Accordingly, an increase of Rs.42,711,313 was observed in the financial result. This growth was mainly due to the income from the maize seed project.

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although government capital grants of Rs.185,200,000 were received during the year under review, Rs.12,228,197 had been saved without spent. The operating surplus for the year under review was Rs.57,991,050, of which 21 percent was comprised of government capital provision savings.	That the expected programs could not be implemented due to heavy rainfall at the end of the year.	Income and expenditure should be managed in a planned manner.
(b) Without taking necessary action for non-presentation of 341 cheques worth Rs.1,623,686 that released to the beneficiaries for the soil conservation project during the period from 2016 to 2017, it was shown in the financial statement as non-current liabilities.	That it has been taken into revenue.	Proper action should be taken regarding the cheques that not presented for payment.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the total Rs.12,704,130 of land and buildings, cars, office equipment and furniture and fittings including sales unit was approved to be handed over to Hadabima Cooperative Society Limited from 01 February 2019 with the approval of the Governing Board of the Authority as per the Cabinet decision, assets had been transferred without obtaining approval of the Governing Board of the Authority.	Several related cases are pending in the Kandy District Court and therefore the authority cannot intervene in this regard.	Assets should be transferred on proper approval.
(b) The farm land of 05 acres in Kotmale had not been handed over to the authority.	That the Minister of Agriculture has been informed in this regard.	Actions should be taken to acquire the farm land.

3.3 Visual Disturbances

Audit Observation

The agreement has been reached with the temple at Rs.1,046,560 for the construction of a protective embankment for a tank which planned to build by a temple in Ehaliyagoda area under the Water Sources and Watershed Conservation Program and Rs.522,780 had been paid on 08 December of the year under review without doing any construction.

Comments of the Management

The lord of the temple has informed in writing that the construction materials purchased by the advance were used for other purposes.

Recommendation

Payment should be made after completion of the scheduled work.

3.4 Deficiencies in Contract Administration

Audit Observation

- (a) Rs.200,000 was had been paid on 08 December 2023 after assign to the contractor for the construction of a security fence consisting of 80 fence posts with 05 feet high and 10 strands of barbed wire around the site where a water tank will be installed in the Tundeniya Dale Canal Water Source Conservation Project. According to the physical inspection conducted on 08 March 2024, due to the fact that only 15 fence posts were constructed with very poor quality and less than the estimated size, Rs.165,500 had been overpaid for 65 fence posts. Due to the construction of non-standard fence posts, the amount of Rs.80,058 spent on barbed wire was also a useless expenditure and Rs.183,288 had been spent on two concrete posts that was constructed without standard for the construction of a gate on the land.

Comments of the Management

That the retentions will be released after getting the work done properly.

Recommendation

Action should be taken to getting work according to the proper standard.

- (b) Without preparing plans and estimates with the assistance of a technical officer of the authority or any other independent external engineer for the project of construction of the lake in Kothmale farm, the construction was assigned to a contractor and agreements were reached based on an estimate of Rs.2,399,640 prepared by that institute. As per work subject No. 01 and 02, the total of Rs.633,637 was overpaid for 1055 cubic meters and 871 square meters respectively for digging of the soil and land clearing. Although Rs.384,000 had been paid for demolishing a stone of 08 cubic meters under work subject No. 03, information was not submitted to the audit that such a stone was demolished. Late penalty of Rs.53,947 had not been charged for 53 days due to the fact that, even though the work was supposed to be completed by the end of the year under review, it was not completed by 22 February 2024.
- That the construction works have been carried out according to the recommendations and relevant estimates given by the Civil Engineer of the Department of Agriculture.
- According to the plans and estimates prepared by a professional qualified officer, the construction should be assigned and payment for the completed works after recommendation should be done and, necessary action should be taken against the officers who paid for the uncompleted works.
- (c) Pallekele Farm Reservoir Renovation Project was assigned to contractor for Rs.5,751,630 and an undated contract was signed. An agreement was reached with the contractor on behalf of the Authority using the name of an external engineer who did not belong to the Authority. Rs.1,770,641 was overpaid for 1727 cubic meters of soil removal at the construction site and Rs.22,943 was overpaid for coiled steel wire in the construction of canal and drain. According to the agreement, although the project should be completed on 30 December 2023, the work was not completed by 28 February 2024 and therefore late penalty of Rs.171,145 for 61 days and Rs.1,920,026 due to Rs.1,025
- That the relevant cheques have been retained as they were required to be inspected by an engineer.
- It should be formally agreed in the fulfilment of contracts and the future activities should be carried out as mentioned in the agreement. Necessary action should be taken against the officers who have made payments for unexecuted work.

paid instead of Rs.520 per cubic meter for removing soil from the canal and tank bottom had been overpaid.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

The total amount of Rs.2,497,502 was spent in 05 expenditure objects exceeding the approved budget limit from 04 to 86 percent during the year under review, and a total of Rs.20,980,984 provisions in the range of 26 to 99 percent of the allocated amount of 07 expenditure objects had been saved without unutilized.

Comments of the Management

That the expenditure incurred in cash during the year before adjusting the accrued expenditure has not exceeded the budget limit.

Recommendation

Expenses should be incurred within the approved budget limit. Provisions should be utilized as planned.