

Institute for Agro-Technology and Rural Sciences affiliated to the University of Colombo - 2014

The audit of financial statements of the Institute for Agro-Technology and Rural Sciences affiliated to the University of Colombo 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 27 of the Institute for Agro-Technology and Rural Science Ordinance No. 02 of 2008 enacted in terms of Section 18 of the Universities Act, No. 16 of 1978 and Sub-section 107(5) of the Universities Act. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Sub-section 108(1)) of the Universities 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 Auditing 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 judgements, 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 the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit 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 Institute for Agro-Technology and Rural Sciences affiliated to the University of Colombo 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 Deficiencies

The following observations are made.

(a) Even though the provision for gratuity as at 31 December 2014 amounted to Rs.1,658,383, it was shown as Rs.1,640,595 in the statement of financial position, thus understating the non-current liabilities of the year under review by a sum of Rs.17,788.

(b) Action had not been taken to value the goods received as donations during the year under review and post in the accounts.

2.2.2 Unreconciled Control Accounts

In comparing the value of buildings shown in the financial statements with the related schedules, a difference of Rs.413,544 was observed. As such, the depreciation of the year had been overstated by a sum of Rs.2,966. Further, in comparing the value of office equipment with the Register of Assets, a difference of Rs. 8,266 was observed and the depreciation for the year had been increased by a sum of Rs.5,044.

2.2.3 Lack of Evidence for Audit

Even though 2,500 almanacs valued at Rs.25,000 printed by the Institute had been entered in the Inventory as receipts to the stores, no evidence in support of the issue of those almanacs was made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Out of the loans amounting to Rs.2,000,000 granted from the Farmers Trust Fund, a sum of Rs.136,090 had not been recovered out of the loan installments recoverable as at 31 December 2014.

- (b) According to the agreements on loans granted to farmers in the year 2012 by the Institute under the Rural Entrepreneur Development Programme, settlement of loans should be completed by the end of November 2014. Nevertheless, a total sum of Rs.217,153 due from 09 farmers had not been recovered even by the date of audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) <u>Establishment Code of Universities</u> Paragraph 2.7 of Chapter XXVI of Part II	The Board of survey should satisfy that all assets purchased or received as gifts or donations are posted to the Inventories. Nevertheless, a stock verification had been carried out without entering the goods received by the National Online Distance Education Service Center on 26 August 2014 in the Inventory.
(b) University Grants Commission Circular No.48(4) of 13 November 1979	The Register of Fixed Assets had not been properly prepared.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Institute for the year ended 31 December 2014 had resulted in a deficit of Rs.2,789,001 as against the surplus of Rs.6,301,901 for the preceding year, thus resulting in a deterioration in the financial result of the year under review by a sum of Rs.9,090,902 as compared with the preceding year. The increase of personnel administration expenditure by a sum of Rs.4,108,690 and travelling expenditure by a sum of Rs.1,507,153 had mainly attributed to this deterioration.

4. Operating Review

4.1 Performance

The Institute for Agro-Technology and Rural Sciences had commenced the first course at the beginning of the year 2009 and when studying that course up to a degree level, the Institute should cover the syllabus relating to the degree within 05 years. Nevertheless, the work on thesis being the final stage of the degree had not been commenced despite an elapse of nearly 06 years and 06 months since the commencement of the course up to 03 July 2015, the date of audit.

4.2 Personnel Administration

The following observations are made.

- (a) Out of the 36 employees recruited on the assignment basis as at 31 December 2014, 11 employees had completed a service period over 5 years and the service period had been extended year by year.
- (b) Action had not been taken to maintain an approved staff for all the employees deployed in the Tissue Culture Laboratories and Green-houses who provide direct contribution to produce tissue culture banana plants and the officers who carried out operating and supervision activities.
- (c) A Project Manager had been appointed in October 2014 on a monthly allowance of Rs.75,000 and a sum of Rs. 225,000 had been paid as project management allowances despite the failure to perform the duties relating to the appointment.

4.3 Identified Losses

According to the physical verification carried out on 03 July 2015, it was revealed that stocks valued at Rs.81,679 purchased by the Institute during the period from the year 2011 up to 2014 had expired. Further, those stocks were slow moving stocks and had expired due to purchases made exceeding the requirements.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) It was observed that, out of a building with 1,947 square feet belonging to the Institute, 1,157 square feet had been remained idle for over 03 years without being used.
- (b) Out of the capital grants made available to the Institute by the Government, a sum of Rs.25,423,370 had been deposited in current accounts without being used for the achievement of objectives concerned.

4.5 Matters of Contentious Nature

A sum of Rs.63,867 had been spent on a newspaper advertisement in the year under review contrary to the objectives of the Institute.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though the Corporate Plan in terms of Public Enterprises Circular No.PED/12 of 02 June 2003 should be prepared and obtained the approval of the Board of Management before the year under review for use in the operations of the Institute effectively and as a guidance, action had not been taken accordingly.

5.2 Action Plan

An Action Plan had not been prepared before the year under review in a manner to assign responsibilities to the officers for the financial and operating performance. As such, the goals and targets expected to be achieved/ reached in the year 2014 and the financial and physical progress thereof could not be examined in audit.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets Control
- (b) Advances Control
- (c) Accounting
- (d) Financial Control