

## **Institute for Agro-Technology and Rural Science – 2017**

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The audit of financial statements of the Institute for Agro-Technology and Rural Science affiliated to the University of Colombo for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 27 of the Institute for Agro-Technology and Rural Science Ordinance No. 02 of 2008 enacted under Section 18 and Sub-section 107(5) of the Universities Act, No. 16 of 1978 and in terms of Sub-section 108 (1) 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**

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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**

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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. Section 111 of the Universities Act, No. 16 of 1978 gives 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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 Science Affiliated to the University of Colombo as at 31 December 2017 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**

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##### **2.2.1 Accounting Policies**

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Eventhough according to the accounting policy for the useful lifetime of the laboratory and teaching equipment had been identified as a five years, depreciation had been calculated at the rate of 10 per cent considering the useful lifetime is 10 years and, as such depreciation had been understated by Rs.792,989 in the year under review.

##### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) A sum of Rs.222,000 spent for the purchase of capital goods relevant to the Unspent Other Capital Account had been debited to the Spent Capital Account instead of debiting to the Spent Other Capital Account.
- (b) Out of Rs.1,600,000 received as Other Capital Grants during the year under review, a sum of Rs.678,000 had been used for Recurrent Expenditure.
- (c) Eventhough a sum of Rs.1,235,052 spent for recurrent nature expenditure from the Capital Grants had been shown under the Recurrent Expenditure in the financial statements, but equal amount of income had not been identified and therefore, income of the year under review had been understated by that amount.
- (d) Eventhough the interest income on a demand deposit receivable in the year under review amounted to Rs.1,067,546, had been identified as Rs.1,018,023 in the Financial Statements. As such, receivable interest had been understated by Rs.49,523.
- (e) Eventhough the interest income in investments in the year under review amounted to Rs.3,852,691, had been shown as Rs.3,958,365 in the financial statements as such overstated by Rs.105,674.

- (f) The following deficiencies in cash flow statement were observed in the audit tests.
- (i) Eventhough fixed deposits withdrawn amounted to Rs.75,324,949 in the year 2017, adjusted as Rs.1,537,339 in the cash flow statement, as such cash inflow under financial activities had been understated by Rs.73,787,610.
  - (ii) Eventhough the interest income of the year, as per the statement of financial performance, amounted to Rs.3,968,763 had been adjusted as Rs.3,958,365 in the cash flow statement.
  - (iii) A loan had been received from the Famers' Trust Fund to give loans to the farmers in 2017 but the portion collected from the farmers on that loan, amounted to Rs.730,250 had not been shown in the cash flow statement as a receipt.
  - (iv) Eventhough a sum of Rs.1,105,000 remitted to the Farmers' Trust Fund, had been shown as Rs.1,041,666 in the cash flow statement thus understated by Rs.63,334.
- (g) Eventhough a sum of Rs.614,319 paid in 2018 for expenditure relevant to the year 2017, the liability had not been identified as an accrued expenditure as at 31 December 2017.
- (h) The banana plants stock balance as on 31 December 2017 was 20,178 and the unit cost was 61.89 and then the value of the final stock should be Rs.1,248,816. But the value of final stock in the statement of Financial Position was shown as Rs.1,510,073 thus overstated by Rs.261,257.

### **2.2.3 Un-Reconciled Control Accounts**

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A difference of Rs.1,209,385 observed between the ledger balance of five ledger accounts and the balance shown in the financial statements.

### **2.2.4 Unexplained Differences**

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While checking the sales income of papaya plants, eventhough as per the monthly summary report the total income was Rs.19,435,025 but shown as Rs.19,367,245 in the financial statements thus observed difference of Rs.67,780 as at 31 December 2017.

### **2.3 Accounts Receivables and Payables**

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The following observations are made.

- (a) A sum of Rs.1,000,000 given as loans to 06 farmers by the Farmers' Trust Fund and it was observed that out of that a sum of Rs.908,280 had not been recovered since year 2015.
- (b) A sum of Rs. 208,000 given as loans by the Rural Entrepreneur Development Programme to two persons in 2012 and it was observed that, out of that a sum of Rs.35,860 had not been recovered since year 2015.

## **2.4 Non Compliance with Laws, Rules Regulations and Management Decisions**

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In terms of University Grant Commission circular No. 636 of 14 July 1995, even though the results of the examinations should be issued within 03 months since the date of conducting of those examinations, but observed that a period from 05 months to 10 months had elapsed for the issuance of results of 13 examinations conducted by the institute.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs.1,201,286 as against the deficit of Rs.10,828,494 for the preceding year, thus indicating a improvement of Rs.12,029,780 in the financial result of the year under review as compared with the preceding year. The increase in the amortization of capital assets purchased from the capital grants during the year under review compared to preceding year by Rs.13,164,940 had been the main reason for the above improvement.

An analysis of financial results of the year under review and 04 preceding years revealed that the mixture of surplus and backward and the surplus of Rs.6,301,901 in 2013 had decreased to a surplus of Rs.1,201,286 in 2017. However, in readjusting the employees' remuneration and the depreciation for the non-current assets to the financial result, the contribution which was Rs14,477,841 of the year 2013 had increased with variations to Rs.41,806,913 in the year 2017.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Performance and Review**

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The following observations are made.

- (a) The number of students completed the Agro Technology Degree Programme Compared with the number of students registered for the degree course, 60 students 67 students in the first and second batch had registered in 2009 and 2010 respectively, but only 09 and 11 students had completed the degree course respectively. Thus it was observed that out of registered students 15 per cent and 16 per cent students only had completed the degree respectively.
- (b) While comparing the number of students completed the Diploma level in percentage wise, the number of students registered in each group in six batches in last six years it was observed that, percentage of students completed the diploma had been in low level such as 21 per cent to 56 per cent.

- (c) While checking the Action Plan and performance indicators of its progress it was observed that out of 37 performance indicators eight indicators had not make any progress. As such, expected activities had not performed.
- (d) Comparatively no enough sales with compared to the monthly production of papaya plants. As such, more plants had remained in the monthly production. The monthly sales had low value such as 4 per cent to 62 per cent all over the year and balance stock remained from 26.4 per cent to 95 per cent.

## **4.2 Management Activities**

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The following observations are made.

- (a) Two loan programmes had been conducted by the institute under the Farmers' Trust Fund and the Rural Entrepreneurship Development Programme and had not been entered to a proper agreement at the loan granting by the Trust Fund and farmers. Due lack of specific methodology for recovering those loans, and it was observed that recovery of loans were complicated.
- (b) A sum of Rs.10,120,895 had been invested in demand deposit on 26 December 2014 and remained as it is by the audited date of 21 September 2018 and the receivable investment income since the date of investment to 31 December 2017 was Rs.1,067,546. If this money had invested in fixed deposit a sum of Rs.2,159,874 would have been received as interest income. As such, it was observed that, approximately income of Rs.1,092,328 had loss to the institute.

## **4.3 Staff Administration**

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The following observations are made.

- (a) The approved cadre of the Institute stood at 26 while the actual cadre stood at 08. As such, 18 vacancies existed in the entire staff, including one in the post of Senior Lecture, two in the post of Lectures and one in the post of Temporary Demonstrator in the academic staff.
- (b) The Institute had recruited 55 employees on assignment basis in the year 2017 and it was observed that those employees' had 01 year to 18 years service in the institute. Eventhough the Ministry of Higher Education had received in this regard, without amending the cadre requirement 41 excess employees had been engaged in the service.

#### **4.4 Idle and Underutilized Assets**

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The Ministry of Higher Education had constructed a hostel with 100 rooms which can accommodate up to 400 students in the year 2014 in the Institute by spending a sum of Rs.220,096,952 under the 60 Hostels Project and handed over to the institute in 2014. At the checking of usage of rooms, observed that maximum number of rooms used was 32 in each month in the year 2017. It was observed that, no students are boarded in full time in this hostel and the daily maximum number boarded were 77. The institute was unable to use this hostel in efficiently even up to the audited date of 28 September 2018.

### **5. Sustainable Development**

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#### **5.1 Achievement of Sustainable Development Goals and Objectives**

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Every public institution should act in compliance with the circular No. NP/SP/SDG/17 of 14th August 2017 issued by the secretary to the Ministry of National Policies and Economic Affairs on the '2030 agenda' of the United Nations for Sustainable Development. However, the Institute for Agro – Technology and Rural Science had not aware as to how to function with respect to the duties under preview of their scope.

### **6. Accountability and Good Governance**

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#### **6.1 Procurement**

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The following observations are made.

- (a) Eventhough the Master Procurement Plan had been prepared for the year under review, a comprehensive procurement plan including the time period for the completion of procurement activities had not been prepared. As such, procurements could not definitely be identified and could not be reconciled with the plan and completion within the time period could not be verified to the audit.
- (b) In the test checks it was observed that, 125 days spent for the procurement process from the date of the request made by the relevant division till the goods ordered from the supplier for the purchase of 75 lecture halls chairs valued Rs.638,250 and 202 days spent for this same process for the purchase of printing machine valued Rs.58,300. As such, it was observed that, delays of procurement process were remained.

#### **6.2 Budgetary Control**

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It was observed that, in the reconciliation of budgeted and actual income and expenditure the internal income compared to the estimated income had decreased by 81.9 per cent and the 06 items of expenditure had exceeded the estimates by 44 per cent to 433 per cent.

## 7. **Systems and Controls**

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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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Plants production and sales	Plant produce without forecasting the sales, not planning productions and sales, not prepare production accounts for other productions.
(b) Staff Administration	(i) Failure to revise the approved cadre according to the requirements of the staff and to take action to fill vacancies.  (ii) Failure to maintain personal files of the officers of the Institute including accurate information.
(c) Stock Valuation	Stock not valued according to the plants stock valuation policy.
(d) Debt Control	Failure in taking action for the recovery of loans.