

National Institute of Plantation Management - 2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Institute of Plantation Management for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and 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 the Finance Act, No.38 of 1971. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the National Institute of Plantation Management 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 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 determines 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 matters related to going concern and using the going concern basis of accounting unless management either intends 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 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 Auditor's Responsibility 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 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 Institute'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 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. 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 Institute 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 of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Comments on Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance	Comments of the Management	Recommendation
<p>In terms of Paragraph 31 of Standard 07, costs of advertising and promotional activities should not be added to the cost of property, plant and equipment. Nevertheless, the expenditure of Rs. 1,162,025 incurred for advertising and promotional activities in the year under review had been added as assets to the value of buildings and work-in-progress by the Institute.</p>	<p>Financial facilities have been approved to the Institute by a special capital proposal for the construction of new Administration Building, lecture halls and Research and Development Unit of the Institute. The cost of Rs.1,062,025.00 incurred on the commencement of work by laying the foundation stone to the said building and making aware the persons who participated therein, has been considered as an expenditure incurred solely for the relevant project and included in the value of work-in-progress. Accordingly, the said cost has been capitalized considering as a part of the cost of building. As the method of classification of the cost of advertising and administration relating to the commencement of building constructions was not specified in Paragraph 31 of the relevant standard, it had been capitalized considering as an opening cost the said building.</p>	<p>In terms of the Standard, expenditure of advertising and promotional activities could not be added to the cost of buildings. The said expenditure should be identified as revenue expenditure.</p>

1.6 Accounts Receivable and Payable

1.6.1 Money Receivable

Audit Observation	Comments of the Management	Recommendation
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The Institute had not taken action even by the end of the year under review to recover debtor balances totalling Rs.239,901 shown in accounts over a period of 05 years pertaining to 02 institutions.	Even though the said debtor balance of Rs.239,901.00 should be recovered from the public enterprises namely, the Elkaduwa Plantations Ltd. and Plantation Human Development Trust, the relevant sum of money has not been paid despite several requests made. Those debtor balances will be written off in the year 2019.	Necessary legal action should be taken to recover the due amount.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs. 67,659,429 as compared with the corresponding surplus of Rs. 8,276,437 for the preceding year, thus indicating an improvement of Rs. 59,382,992 in the financial result. The increase in grants of special projects and income from trainings by Rs.44,700,000 and Rs.15,155,939 respectively had been the main reasons for the said improvement.

2.2 Ratio Analysis

The current asset ratio had increased from 1:1:13 to 1:9 and quick asset ratio from 1:1:34 to 1:8:43 in the year under review as compared to the preceding year. Deposits in the development projects of universities and increase in the medical aid insurances paid in advance had been the main reasons for the said increase. The profit ratio of 7.17 per cent in the preceding year had increased to 33.87 per cent and the increase in special project grants by Rs.44 million had been the main reason therefor.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>(a) A decrease in the number of programmes conducted in respect of rubber and tea by the Institute and also a decrease in the number of students participated was observed as compared with the information of 05 preceding years. The number of training programmes conducted in respect of rubber and tea in the year 2018 had decreased by 83 per cent and 58 respectively while the number of participants in the programmes conducted in respect of rubber and tea had also decreased by 88 per cent and 54 per cent respectively as compared with the year 2014. Nevertheless, the institute had not taken action to revise the syllabus and also the course fees in accordance with the relevant requirement with a view to increasing the participation of students.</p>	<p>Discussions had been held with the Heads of Institutions to encourage them to send participants for the courses by using the booklet prepared by the Institute in each year which contains the details of courses proposed to be conducted on tea and rubber sectors during the period of said 05 years. However, the number of courses and participants had increased and decreased according to the fluctuations in the sector. Even though special leaflets prepared based on the certain targeted courses in line with each period of time have been sent to the institutions and promoted the courses through newspaper advertisements from time to time, the participants for courses have decreased. Nevertheless, training courses required to earn the targeted income of the Institute have been conducted in respect of alternative sectors.</p>	<p>The Institute should take action to increase the number of participants through the options such as revision of syllabuses and fees of relevant training courses.</p>
<p>(b) Even though adequate physical and human resources to conduct training programmes on sugar cane and cinnamon were available in the Institute, no action had been taken in the year under review to enrol trainees and conduct programmes as planned. Further, no programme whatsoever had been conducted in respect of sugar cane and cinnamon in the years 2015, 2016 and 2015, 2017 respectively.</p>	<p>Even though courses for the sectors of sugar cane and cinnamon have been prepared and proposed by the Institute during the two relevant years, there was no adequate demand for the two sectors from the institutions established, thus our Institute itself cannot plan to conduct courses in other sectors. Further, courses have been conducted by those institutions as well and as such, following courses in our Institute was at a minimum level.</p>	<p>-do-</p>

- (c) The intentions and objectives of the students selected for the courses on tea factories and tea field officers commenced in January of the year 2018 have not been considered in planning the Courses and as such the participation of students at the beginning of the year being 54 and 53 respectively had dropped to 36 and 39 respectively by the end of the year. The Management had not paid the attention therefor.
- Even though position in the job market is observed in arranging courses by the Institute and students are enrolled based on the adequate job opportunities in each sector, the Institute had confirmed that the said students had dropped out due to their personal matters but not due to the lack of job market.
- The reasons for dropouts by the students selected for courses should be analyzed and methodologies required to encourage the students to continue the courses should be formulated.
- (d) The Institute had not taken action to issue a certificate for the students who completed the courses on tea factories and tea field officers commenced in June 2016 with the concurrence of the Tertiary and Vocational Education Commission certifying that NVQ04 qualifications have been acquired. Thus, the relevant students had lost the local and foreign job opportunities.
- The issue of certificate of accreditation for relevant courses was delayed by the Tertiary and Vocational Education Commission and as such, the final evaluation thereof was delayed. At present, the certificate of accreditation has been received and the students who have successfully completed the course have been referred to the Tertiary and Vocational Education Commission for the final examination.
- Necessary action should be taken without delay to issue the certificates with relevant qualification to the students who have completed the course.
- (e) A Memorandum Of Understanding had been signed with the Wayamba University on 22 June 2016 with the intention of exchanging knowledge of Agricultural Science, research and development activities, planning Agriculture research projects, developing workshops, conferences, training courses jointly and providing internship opportunities for technical staff. Nevertheless, such courses had not been conducted.
- It is informed that the officers of the Institute had participated in the activities of the Wayamba University while teachers and lecturers of the Wayamba University had participated in the activities carried out by the Institute throughout the year as stipulated in the Memorandum Of Understanding signed between the Wayamba University and the Institute.
- The Institute should take action to conduct courses required for the achievement of objectives stated in the Memorandum Of Understanding.