

1.1 Qualified Opinion

The audit of the financial statements of the Postgraduate Institute of Agriculture for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of 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. 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 accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, 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 Scope of Audit (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 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 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. 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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
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(a) In terms of Section 88 of the Sri Lanka Public Sector Accounting Standards No. 01, Provisions for audit charges amounting to Rs. 1,195,310 related to the years 2017 and 2018 had been stated under Accrued Expenses though Provisions have to be stated separately in the statement of financial position.	Provisions for audit charges has been included under accrued expenses and provisions in the statement of financial position.	Action should be taken in terms of the Sri Lanka Public Sector Accounting Standards No. 01.
(b) Even though the increase in 02 account balances was Rs. 30,253,403 as at 31 December in the year under review in comparison to that of in the previous year, it had been adjusted under working capital changes as Rs. 30,436,559 in the statement of cash flow.	The audit charges paid in the year 2018 related to the provisions for audit charges included in this accrued expenses has been adjusted. The cash flow of the trade and other receivables has been taken after removing the net cash flow of the investment amount receivable included in the trade and other receivables.	Action should be taken in terms of the Sri Lanka Public Sector Accounting Standards No. 02.

1.5.3 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
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(a) Charges for visiting lecturers amounting to Rs. 6,785,100 and Examination fees amounting to Rs.355,078 allocated for the year 2016 had to be taken to income during the year under review as the amounts were not submitted to pay even at the end of the year under review due to allocating provisions without identifying the value of lecture charges	Only two years are considered in accruing charges for visiting lecturers and the accrued amount of the years 2017 and 2018 had been taken to accounts in the year 2018. However, charges for visiting lecturers amounting to Rs. 6,785,100 saved from accrued charges for visiting lecturers in relation to the year 2016 in the year 2017 and	Attention should be focused to establish internal control systems and to minimize such conditions.

related to the year. However, an amount of Rs.29,773,075 had been allocated as Provisions for lecture charges also in the year under review.

examination fees amounting to Rs. 355,078 had been adjusted from the profit of the preceding year.

(b) Even though the loan balances to be recovered from the officers retired and transferred as at 31 December in the year under review should be mentioned as a balance that should be recovered from the balance of the Employees Provident Fund or from the institution from which the officer was transferred, the amount of Rs. 273,381 that should be recovered from three officers who were retired or transferred during the year had been indicated in the loans register of the staff currently employed.

Loans of the employees to be recovered from the transferred and retired officers are not transferred to the accounts in favour of the institution payable and information and reminders are made to pay the relevant amounts to the relevant institutions. The amounts received from those institutions are settled by this account itself.

Should be duly disclosed in the financial statements.

(c) Debit balances amounting to Rs.4,962,610 had been stated in 6 Capital Grants Provisions accounts as at 31 December 2018 due to spending by exceeding the Provisions received for capital projects in the year under review.

Values of financial assets purchased by using additional amounts of the Institute in the previous years had been brought to accounts through these accounts. However, only capital grants of the Government had been considered as receipts. Therefore, debit balances had been created in occasions where payments exceed receipts and credit balances had been created in occasions where receipts exceed payments.

Assets, liabilities and equities of the Institute should be duly identified and accounting should be done accordingly.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value As per corresponding Record	Difference	Comment of the Management	Recommendation
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	Rs.	Rs.	Rs.	Accepted. The	Subsidiary registers

(a)	Rehabilitation/ Capital Grants				balances are accurate as per accounts. The difference had been created due to not updating the schedule even though data had been accurately presented in the financial statements. The schedule has been corrected and it is submitted to the audit along with this.	should be updated and maintained.
	Buildings	2,651,798	2,670,145	18,347		
	Vehicles	297,595	505	297,090		
	Landscape horticulture	198,715	279	198,436		
	Equipment	8,000	-	8,000		
(b)	Balances of the financial Statement corrected as at the opening date of the year under review.				Amounts of library and science deposits obtained from students are taken to income due to exceeding the period of registration as per the recommendation of the Finance Committee.	Bringing forward of the balances of the previous years and adjustments made to those balances should be done accurately and by obtaining the approval.
	Charges for Visiting Lecturers	16,864,875	23,649,975	6,785,100		
	Electricity Charges	223,118	456,205	233,087		
	Special Services Professional and others (Audit Charges)	1,421,830	903,855	517,975		
	Science Deposits	57,000	-	57,000		
	Library Deposits	7,859,188	7,678,688	180,500		
	Course Fees receivable	18,716,513	29,184,569	10,468,056		

1.5.5 Unauthorized Transactions

Description of unauthorized transaction	Comment of the Management	Recommendation
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In terms of Paragraph 8.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, all the excess moneys should be invested in fixed deposits, treasury bills and short-term deposits on the prior approval of the Minister of Finance, in contrary to that, an amount of Rs. 71,000,000 had been invested in fixed deposits during the year 2018 without obtaining approval.	Only if the overall balance available at the end of a month shows a considerable saving even after covering the expenses of the month, the decision of investing the balance in fixed deposits is taken.	Action should be taken in terms of the Paragraph 8.2.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount	Evidence not provided	Comment of the Management	Recommendation
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	Rs.			
Course fees and Registration fees receivable.	8,726,933	Schedule	The schedule related to the course fees and registration fees receivable pertaining to the Journal No. 150 had been presented along with the journal.	Subsidiary registers should be updated and maintained accurately.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operating result of the year under review amounted to a surplus of Rs. 92,115,759 and the corresponding surplus in the preceding year amounted to Rs. 89,663,796. Therefore an improvement amounting to Rs. 2,451,963 of the financial result was observed. The major reasons for the above improvement were the increase in the recurrent

grants of the Government by Rs. 30,000,000 compared with the year 2017 and the increase in internal earnings by Rs. 18,340,635.

Analysis of financial results of the year under review and 04 previous years, a surplus had resulted from the year 2014 up to the year 2018. However, when depreciation for gratuity of employees and non-current assets are re-adjusted to the financial result, the contribution of the Institute, which amounted to Rs. 98,364,643 in the year 2014 had continuously grown and had become Rs. 181,850,190.

3. Operational Review

3.1 Identified Losses

Audit Observation -----	Comment of the Management -----	Recommendation -----
Action had not been taken to recover course fees amounting to Rs. 295,900 and registration fees and other receivables amounting to Rs. 822,200 recognized as receivables from students who had completed courses during the year 2018 and an amount of Rs. 1,118,100 had been written off by the Journal entry No. 153 even without getting a due approval.	Even though course fees, registration fees and other receipts amounting to Rs.1,118,100 recognized as receivables from students who had completed courses during the year 2018 was paid by students, that had not been included in to the Management Information System (MIS) and the accurate course fee had not been included in to the system and the information requested by the Accounts Division had not been provided in the due period and as a result, the amount had been adjusted in the receivable income account as an unpaid amount.	Responsible officers should function with due care.

3.2 Management Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
(a) Chemicals purchased at a sum of Rs. 278,997 in 03 occasions by the Post Graduate Institute of Agriculture for research activities had not been	Since facilities are not available for storing chemicals in the main stores of the Post Graduate Institute of Agriculture, the chemicals ordered in	Action should be taken in terms of the Financial Regulations 507.

included in the stock book and directly issued to the Faculty of Agriculture.

the purchase of chemicals to the Institute are directly referred to the relevant laboratories of the Faculty of Agriculture and the chemicals had not been included in the stock books.

(b) A sum of Rs. 1,050,000 had been paid to Science Land Information (Pvt) Ltd. For the Project of designing a Computerized Accounting Software System of which the contractual Value was Rs. 2,100,000 and its activities have to be finalized and handed over by 13 August 2018, the activities had not been finalized even by 30 April 2019.

As per the report obtained from the Accounts Division (End User) of our Institute on the progress of the aforesaid computer process, the four main modules and three sub modules had not been fully finalized and the overall progress as per the report was 50 per cent.

Attention should be paid to finalize the project activities in compliance with the Agreement.

(c) Twenty four (24) vouchers for a sum of Rs. 799,025 pertaining to visiting lecturer fees which had not been stated in accrued expenses accounts up to the year 2016 had been paid during the year under review.

It was observed that vouchers pertaining to visiting lecturer fees and the vouchers for the other academic duties had been requested after a delay and the Management had not taken a methodical procedure to avoid this situation.

Action should be taken to avoid this situation by introducing systematic internal control methods.

3.3 Under -utilization of Funds

Audit Observation	Comment of the Management	Recommendation
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Balances of five (05) research funds amounting to Rs. 2,272,410 were being carried forward during the year under review without conducting any transaction.	<p>IDRC Grant – The money saved from the amount received for one phase of this project. Transactions of this Project had not been taken place in the year 2018 and future action will be taken by the Coordinator as per the recommendation of the relevant Institute.</p> <p>The other balances are the saved money of the HETC Project and action will be taken to credit the amount to the Revenue in the year 2019.</p>	Funds should be efficiently utilized for the accomplishment of the Objectives.

3.4 Procurement Management

Audit Observation	Comment of the Management	Recommendation
The conduct of the restaurant of the institute had been assigned to the Welfare Society without adopting the procurement process.	Activities of conducting the restaurant of our institute had been assigned to the Welfare Society by considering the practical situation.	Action should be taken in compliance with the existing guidelines.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Management	Recommendation
(a) In terms of the Finance Act No. 38 of 1971, the budget estimate related to the ensuing year should be prepared and approved by the Post Graduate Institute of Agriculture before 03 months prior to the beginning of the financial year. However, the Institute had revised the budget estimate of the financial year 2018 even by 12 November 2018, the end of the year.	Comment of the Management has not been given.	Budget related to the year should be revised on a date immediately after passing the Appropriation Act.
(b) It was observed at the audit that the budget had not been made use of as an effective instrument of financial control due to the variation in the range of 21 per cent to 171 per cent prevailed for 26 items when the budgeted expenditure and the actual expenditure of the items are compared.	These variations had taken place due to the practical conditions prevailed.	Estimation should be done realistically and action should be taken accordingly.