

University of Colombo Institute for Agro-Technology & Rural Sciences - 2020

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the University of Colombo Institute for Agro-Technology & Rural Sciences for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the comprehensive statement of financial performance, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 presented in 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 Institute as at 31 December 2020, and 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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, 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 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 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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 audit 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 audit 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Standard	Comment of the Management	Recommendation
<p>a) When the cash flow statement had been presented in indirect method as per Sri Lanka Public Sector Accounting Standard 02, the annual depreciation of Rs. 32,914,139 which had no effect on cash adjustments, had not been added to the operating activities. Furthermore, a difference of Rs. 81,546,424 existed between the actual variance of working capital shown under the changes in working capital relating to 05 items, and the value shown in the financial statements.</p>	<p>Adjustments will be correctly made in the financial statements in due course.</p>	<p>The cash flow statement should be prepared in accordance with the Sri Lanka Public Sector Accounting Standards.</p>
<p>b) The useful life of assets worth Rs. 7,367,999 still in use despite being fully depreciated as at 31 December of the year under review, had not been revised and adjusted in the financial statements in terms of Sri Lanka Public Sector Accounting Standards 03; instead, only the assets costing</p>	<p>According to the accounting policy of the Institute, the Property, Plant and Equipment had been recognized based on the cost by the end of the financial year. As such, all the assets are not revalued, an accounting policy had not been in</p>	<p>The financial statements should be presented in accordance with the accounting standards.</p>

Rs. 4,162,725 pertaining to 04 effect to revalue the classes of assets out of the ones assets annually, and mentioned above had been corrective measures will revalued to the cost contrary to be taken in the final Sri Lanka Public Sector Accounting Standards 07, and account of the year 2021. brought to accounts as a prior year adjustments. Furthermore, of the assets worth Rs. 79,193,786 shown

in the financial statements to the value of the cost albeit depreciated, the assets still in use despite being withdrawn from use had not been disclosed separately in the financial statements in accordance with Paragraph 92 of the Sri Lanka Public Sector Accounting Standards 07.

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| c) | The gratuity had not been professionally assessed by the end of the year under review contrary to Sri Lanka Public Sector Accounting Standard 19. Furthermore, the gratuity had been undercomputed by Rs. 5,977,630 as per actuarial strategies and brought to accounts by the end of the year under review. | Due to heavy costs likely to be incurred on a professional, the gratuity was computed based on the rates of a professional. | The accounting standards should be followed. |
| d) | An accounting policy had not been recognized in order for the aid and donations received from various parties by the Institute to be brought to accounts contrary to Sri Lanka Public Sector Accounting Standard 11. Information on liabilities to the institutions relating to the aid already received to the | Will be disclosed correctly in due course. | Receipts of aid and donations should be disclosed in the financial statements. |

value of Rs. 514 million, had not been disclosed in the financial statements.

1.5.2 Accounting Deficiencies

Non-compliance with Reference to the Standard	Comment of the Management	Recommendation
<p>a) The sum of Rs. 51,743,291 had been shown as the value of works in progress under non-current assets in the financial statements of the year under review. However, of the assets shown under the said works in progress, assets valued at Rs. 43,246,410 had been made use of by the Institute. As such, depreciation on assets and the value of assets in use had been understated by that amount in the financial statements.</p>	<p>The correct value will be presented in the final accounts of the year 2021</p>	<p>The assets should correctly be brought to accounts.</p>
<p>b) The value of work in progress relating to banana plants had been shown as Rs. 68,970 and Rs. 758,093 in the financial statements and ledger respectively by the end of the year under review, thus observing a difference of Rs. 689,123 between those values, but the reasons attributable to that difference had not been explained to the Audit. Furthermore, lecture fees amounting to Rs. 202,500 payable to visiting lecturers by the</p>	<p>Only the expenses presented until the final account of the year 2020 had been prepared, were brought to accounts with a view to presenting the correct value through the final account of the year 2021.</p>	<p>The difference should be identified and corrected, and expenses relating to the year should be brought to accounts correctly.</p>

end of the year under review, had not been brought to accounts as an expenditure of the year.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
a) Sections 5(ii) and (iii) of the Gazette Extraordinary, No 157 1/15 dated 16 October 2008.	Action had not been taken to establish a Board of Education and Board of Academics Syndicate to the ordinance.	Action has been taken to establish a board of academics.	Provisions of the Gazette Extraordinary should be followed.
b) Financial Regulations 1645 (b), (c), and 1646 of the Democratic Socialist Republic of Sri Lanka.	Daily running charts and monthly summaries pertaining to 08 vehicles of the Institute had not been furnished to the Audit on time during the year under review.	Corrective measures will be taken in due course.	The Financial Regulations should be followed.
c) Supply and Finance Circular, No. 09 of 26 June 1978, and University Grants Commission Circular, No. 689 dated 16 September 1996.	Uniforms and protective outfits for 39 officers belonging to 04 categories of the permanent staff of the Institute should have been properly identified and issued, and sewing charges should have been reimbursed. However, action had not been taken as per the Circular.	It is agreed with the audit query. Uniforms will be provided for all the employees in the year 2011.	Provisions of Circulars should be followed.
d) Circular, No. 636 of the University Grants	Results of the examinations relating	At present, results are	The Circular should be

Commission, dated 14 July 1995. to academic activities should be released within a period of 03 months, but the Institute had not released the results of 09 examinations held in the year 2019 on time and a delay ranging from 39 to 238 days was observed. released on followed. time.

2. Financial Review

2.1 Financial Results

The operating result of the Institute for Agro-Technology & Rural Sciences for the year under review was a profit of Rs. 16,973,994 as against the loss of Rs. 6,993,247 in the preceding year, thus observing an improvement of Rs. 23,967,241 in the financial result. Although the gross profit had increased by Rs. 831,094, the increase in revenue amounting to Rs. 28,234,749 including the increase of Government grants received in the year under review as well amounting to Rs. 14,650,000 as against the increase in expenses by Rs. 4,267,507, had attributed to the said improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) Action had not been taken from the year 2019 up to the end of the year under review to recruit a manager for the livestock and agrarian division of the Institute. All the duties of that division had been performed by a single employee, and those activities were not subject to proper supervision. As such, internal control in that connection remained weak. Furthermore, a survey on stocks had not been done even by the end of the year.	An acting farm manager was appointed in the year 2021 to supervise the said division.	Duties should be identified, and powers should be delegated whilst supervising and conducting a survey on stocks.

- b) According to the report of the Board of Survey for the year 2019, there existed 160 excesses relating to 10 categories of items. However, the management had not taken action properly in that connection.
- Those were the items issued to students for practical tests before the spread of Covid-19. The stores will retrieve them once the students have arrived.
- The excess items should be identified, and the stock registers should be updated.

3.2 Deficiencies in Contract Administration

Audit Observation -----	Comment of the Management -----	Recommendation -----
As for extending the period of agreement for the contracts, such extensions should be given after ensuring the accuracy of reasons provided by the contractors. However, there existed instances in which it had not been so done with respect to 04 contracts valued at Rs. 143,712,947. The period of validity of the performance sureties for those contracts had not been extended.	Approval of the Board of Management had been received for extending the contract period, and the Secretary to the Ministry of Education was referred for his approval in that connection. No decision has been taken so far to recover penalties for delay.	As for the contracts for which no extensions were granted, penalties for delay should be charged in terms of the agreements.

3.3 Human Resource Management

Audit Observation -----	Comment of the Management -----	Recommendation -----
Action had not been taken to fill 30 vacancies existed by the end of the year under review.	Recruitments to the vacancies in the academic staff were made by 01 March 2021. Action will be taken to make recruitments to the vacancies in the non-academic staff in due course.	Vacancies in the staff should be filled.