

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the University of Colombo Institute for Agro -Technology and Rural Sciences to the for the year ended 31 December 2023 comprising the statement of financial position , statement of financial performance for the year then ended, 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 to 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 University of Colombo Institute for Agro -Technology and Rural Sciences as at 31 December 2023, 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 based 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 institution.

1.4 Audit Scope

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 skepticism 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 institution;
- 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 Audit Observation on Preparation of 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.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	An expense of Rs.1,102,672 incurred for earning other income had been deducted while calculating the income from the sale of banana plants during the year under review. As such, the gross profit from the sale of banana plants and the other income earned were understated and overstated by that amount respectively.	That there is no Soybean and Turmeric production revenue in respect of the year under review and that production expenses have been deducted from the gross profit to accurately show the operating loss generated by those activities.	Expenditure related to income should be properly adjusted.
(b)	The cost of Rs.324,030 incurred due to the failure of the production of Turmeric seedlings had been accounted for under the cost of production of banana plants instead of being written off as a loss in the statement of financial performance.	Action will be taken to correct in the 2024 financial year.	Expenditure related to income should be properly adjusted.

(c) Although a sum of Rs.1,206,307 should have been shown as the change in interest receivable under working capital in the preparation of the cash flow statement, that change was not shown in the cash flow statement.	That the change in interest receivable of Rs.1,411,433 during the year under review was offset in cash receipts in the investing activities.	Cash flow statement should be prepared accurately.
(d) Although the value of sale and purchase of livestock in the year under review were Rs.2,569,375 and Rs.755,580 respectively, only a sum of Rs.738,683 was shown under cash inflows under investing activities in the preparation of the cash flow statement.	The sale of livestock in the year under review was Rs.1,388,880 and the purchase was Rs.755,580. Accordingly, the net value was Rs.633,300 and the difference was Rs.105,383 only.	Cash outflows and cash inflows should be accurately identified in the preparation of the cash flow statement.
(e) According to the financial performance statement the annual depreciation was Rs.38,355,138, but in the cash flow statement it was shown as Rs.38,903,339 under non-financial transactions, as such, a sum of Rs.548,201 was overstated in the cash flow statement.	Action will be taken to correct in the 2024 financial year.	Non-financial transactions should be accurately identified in the preparation of the cash flow statement.
(f) According to the financial performance statement, although the amortization expenses was Rs.139,346, that value was not shown under non-financial transaction adjustments in the cash flow statement.	Action will be taken to correct in the 2024 financial year.	Non-financial transactions should be accurately identified in the preparation of the cash flow statement.

1.6 Accounts Receivables and Payables

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Out of loans given to the students from the Farmers' Trust Fund in the years 2014 and 2015, the loan amounting to Rs.559,690 had not been recovered as at 31 December of the year under review.	The final notice letters regarding this loan amount were sent on 15 December 2023.	A proper mechanism should be established and implemented for recovery of loan installments.
(b) A sum of Rs.50,700 to be received from the rent of the canteen belonging to the institution and over payment of Rs.91,352 to 07 retired employees as university provident and pension funds had not been recovered by the date of audit of 13 March 2023.	That the reminding letters regarding the recovery of this money have been re-sent	Overpayments and receivables should be recovered.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 11 of the Finance Act No. 38 of 1971	A sum of Rs.12,199,800 of surplus money had been invested in 11 fixed deposits without the approval of the concerned Minister and the Finance Minister.	That the approval of the Treasury will be taken in the future and an investment policy has been established on the approval of the Management Committee as per the recommendations of the Finance Committee.	The excess money of the institution should be invested on the approval of the concerned minister and the Finance Minister.
(b) University Grants Commission Circular No. 636 dated 14 July 1995	The delay in releasing the results of 35 examinations conducted in the years 2022 and 2023 ranged from 36 days to 424 days.	Presently, the results are being released on time.	The exam results should be released within the stipulated time.
(c) paragraph 3.1 of Chapter xx of the Establishment Code for University Grants Commission and Higher Education Institutions	Neither an attendance register nor lecture notes were maintained for the academic staff of the institute.	Presently is being maintained.	Circular provisions should be followed.
(d) Section 4(a) of the Ordinance relating to the Institution	Due to non-maintenance of library facilities in the institute, the students were not able to use 1150 books which had been donated and 162 books worth of Rs.643,498 which had been procured by the institute since 05 years.	Arrangements have been made to obtain a Library Assistant on a temporary basis.	Action should be taken to prepare a suitable program for the use of books as earliest as possible.

2. Financial Review

2.1. Financial Results

The operational result of the University of Colombo Institute for Agro -Technology and Rural Sciences of the year under review had been a deficit of Rs.2,727,988 and as compared with the corresponding deficit of Rs.5,487,028 for the preceding year, thus observing an improvement of Rs.2,759,040 in the financial result. This improvement was mainly due to increase in other grants.

2.2 Trend Analysis of major Income and Expenditure items

- 2.2.1 Although the sales revenue of selling plants had increased from Rs.10,158,258 to Rs.26,574,015 by 161 percent in the year under review compared to the previous year, the cost of sales had increased from Rs.20,081,634 to Rs.23,299,336 by 16 percent. Accordingly, the gross loss had increased from Rs.9,923,376 to profit of Rs.3,274,697 by 133 percent.
- 2.2.2 The other income had increased from Rs.51,335,480 to Rs.93,364,270 by 81 percent and the interest income had increased from Rs.1,820,310 to Rs.2,650,050 by 45 percent. The government recurrent grants had decreased from Rs.101,421,000 to Rs.69,000,000 by 32 percent and other recurrent expenses had decreased from Rs.24,028,431 to Rs.21,854,655 by 09 percent compared to the previous year.

2.3 Ratio Analysis

The current assets ratio had increased from 1.9 to 3.4 and the quick assets ratio had increased from 1.3 to 2.6 compared to the previous year, as such, the institute liquidity had increased compared to the previous year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An over payment of Rs.944,623 was made exceeding the standard rates for two subjects in the payment bill related to the tissue culture compartmentalization industry. Further, the relevant period related to the standard building rates used for the preparation of estimates were not declared.	That relevant information will be obtained from the Central Engineering Consultancy Bureau and submitted.	Information regarding the rates used to prepare estimates should be disclosed.
(b) A cost of Rs.6,193,291 had been spent as on 04 July 2023 on the construction of automatic Layer house on direct labour basis and estimated civil works value of it was Rs.5,085,876. As such, an additional amount of Rs.1,107,415 had been spent for the construction works.	That all costs (materials, labor and others) were taken into account while preparing engineering estimates for this construction from the Central Engineering Consultancy Bureau.	Payments should be made as per cost estimates.
(c) A number of 268 students had been enrolled for the Agricultural Technology degree course from the year 2009 to 31 December of the year under review and 100 students i.e 37 percent had not completed the degree course.	This is a paid degree course and difficulty of paying the fee is the main reason for the dropout in the middle of the course.	The attention of the management should be paid on the reasons for not completing the courses and remedial action should be taken.

- (d) According to the course fee register, 115 out of 1048 students studying as on 31 December 2023 had not submitted their registration applications to the administration division.
- The institute is currently in the process of introducing a Student Information System (SIS) and once it is established, semester fee payments and registration can be done simultaneously without delay.
- Proper procedures should be established and implemented in the registration of students.
- (e) 2600 students had participated in the 25 examinations held in the year 2022 and the year under review in relation to academic activities and out of that 1141 students had failed. Accordingly, the percentage of examination failure ranged from 12 percent to 97 percent.
- These students are related to the agriculture sector and those who could not enter the universities based on the Advance Level Z score and the percentage of failure increases in the first academic years and then gradually decreases.
- The management should focus on implementing a formal system to reduce the percentage of exam failure.
- (f) According to the letter No. UGC/IDD/GEN/10 (07) dated 11 August 2020 of the University Grants Commission, the University was unable to acquire the legal ownership of 50 acres of land and a sum of Rs.6,404,534 had been spent during the year under review for the construction works of those lands.
- As informed by the Department of Land Commissioner, the lease agreement related to the 50 acres has been signed by the institution once again on 07 March 2024.
- Actions should be taken to acquire the legal ownership of the land.
- (g) A formal estimate had not prepared for the development of the farm by identifying the required number of machine hours, backhoe machines were obtained on rental basis in the year under review and previous year in 02 occasions and a sum of Rs.988,000 had been paid to an external party for 152 machine hours at the rate of Rs.6,500 per hour. According to the 2022 and 2023 District Buying Committee Rates, an amount of Rs. 198,700 had been paid more than the maximum rate that could be paid for machine hours.
- Formal approval was obtained for 140 machine hours, and due to variations occurring in practice, proper approval for 12 machine hours was obtained and payment was made.
- Cost estimates should be prepared for work performed by direct method and dealt with accordingly.