

## **Institute for Agro-Technology and Rural Science - 2015**

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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 2015 comprising the statement of financial position as at 31 December 2015 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 in terms of Sub-section 107(5) and Section 18 of the Universities Act, No. 16 of 1978 and the 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 give 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 2015 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 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

##### **(a) Sri Lanka Public Sector Accounting Standard 01**

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Although all the assets and liabilities of the Institute should be stated at the fair value in the financial statements, 26 items of non-current assets valued at Rs.6,102,110 further being used by the Institute and received under the Higher Education for the Twenty-first Century Project (HETC) in the years 2014 and 2015 had not been brought to account. Those items had not been included even in the Register of Fixed Assets.

##### **(b) Sri Lanka Public Sector Accounting Standard 07**

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As the useful life of the non-current assets had not been reviewed annually, assets costing Rs.693,065 were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Policies**

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In the supply of electricity to the Institute, a sum of Rs.2,598,600 had been paid to the Ceylon Electricity Board for the installation of a transformer on 19 August 2014 and expenditure amounting to Rs.2,594,145 had been incurred for transmitting electricity from the transformer to the hostel and the administrative buildings on 05 February 2015. Although the amount paid to the Electricity Board out of the two segments of expenditure incurred for the same purpose had been decided to be identified as a deferred revenue expenditure and written off against the profit within 10 years, the transmission expenditure had been identified as a non-current assets and depreciation had been made at 20 per cent. Accordingly, it was observed that the expenditure incurred on the same purpose had been brought to account by using 2 accounting policies.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made

- (a) According to the depreciation policy adopted on the computers and accessories valued at Rs.240,520 purchased in the years 2008,2009 and 2010, those should be zero in value as at 31 December 2015. Nevertheless, the net value had been stated as Rs.21,759 in the financial statements due to the erroneous computation.
- (b) Course fees totalling Rs.187,500 remained receivable from 25 students who were following the 17<sup>th</sup> and 16<sup>th</sup> stages of the Agro Technology Degree Course had not been brought to account.

#### **2.2.4 Unexplained Differences**

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According to the stock register maintained by the Institute, although the remaining balance of the plantain plants was 39,650, but it was 38,650 according to the physical stock verification. Accordingly, a difference of 1000 plantain plants valued at Rs.60,760 was observed.

#### **2.3 Receivable Balances**

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The Institute had not taken necessary steps to recover the loan installments in arrears amounting to Rs.83,800 out of the loan granted to three farmers by the Rural Entrepreneurship Development Programme in the year 2012.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.  Financial Regulations 138 and 139  Financial Regulation 371	In the certification of a voucher and payments, it should be ensured that the relevant vouchers are completed in every respect and the payment is made by a formal receipt. Nevertheless, vouchers for the settlement of advances totalling Rs.207,654 relating to the publication of a newspaper advertisement and an international workshop had been certified without bills.  (i) The grant of advances should be solely limited to the Staff Officers. Nevertheless, advances totalling Rs.2,487,240 had been paid to 14 officers who were not in the Staff Grade in 69 instances.

(ii) Although advances should be settled immediately after the completion of the purpose for which it is granted, a delay from 47 days to 237 days had occurred for the settlement of advances totalling Rs.1,853,487 obtained in 44 instances.

(b) Public Finance Circular No.03/2015 dated 14 July 2015.

Although the maximum advance that could be granted at a time was Rs.100,000, contrary to the provisions in the Circular, advances ranging from Rs.110,000 to Rs.170,637 had been granted in two instances.

## **2.5 Transactions not Supported by an Adequate Authority**

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Although a paddy field 2 ½ acres in extent of an outside person had been utilized for the Farmers Training Programme of the 16<sup>th</sup> stage of the course from April to September 2015, approval of the Board of Management had not been obtained both to obtain the paddy field and to incur the expenditure.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Institute for the year ended 31 December 2015 had resulted in a surplus of Rs.5,991,049 as against the deficit of Rs.2,789,001 for the preceding year, thus indicating an improvement of Rs.8,780,050 in the financial results in the year under review as compared with the preceding year. The increase in the Government Grants by Rs.12,000,000 had mainly attributed to the above improvement in the financial results.

An analysis the financial results of the year under review and 04 preceding years revealed that, an increase in the financial results had taken place from the year 2011 to the year 2013 and a deficit and a surplus of the financial results had occurred in the year 2014 and 2015 respectively. However, when taking into consideration the employees' remuneration and the depreciation for the non-current assets, the contribution of the Institute had gradually increased from the year 2011 to the year 2013 and it had been Rs.14,477,841, Rs.10,995,932 and Rs.34,603,218 respectively. The contribution had decreased in the year 2014. However, it had been Rs.34,603,218 in the year 2015 representing an increase of 215 per cent.

### **3.2 Analytical Review**

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According to the statement of financial position presented, the current ratio of the Institute in the year 2015 was 90:1 and it was 61.3:1 in the preceding year. Although the current ratio show a higher value in this manner, 92 per cent of the assets represented the bank balance. Accordingly, a large amount of assets had been retained in the liquid assets.

#### **4. Operating Review**

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##### **4.1 Performance**

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According to the Institute for Agro-Technology and Rural Science Ordinance No. 02 of 2008, the main objective is to provide, promote and develop the higher education opportunities for the persons presently engaged in the higher education on the elements of the agriculture, agro technology and the rural sciences.

The following observations are made on the achievement of the above objectives. .

- (a) The degree course consist of the three stages of Diploma, Higher Diploma and the Degree and 44 per cent to 75 per cent of the total number of students registered for the course had dropped out the course without completing the Diploma stage. Further, it was observed that the number of students who continue the studies up to final project of the Degree stage had been as nominal percentage as 17 per cent to 23 per cent of the initially enrolled students.
- (b) Although the academic period of the Agro Technology Degree Course conducted by the Institute is 4 years and 6 months, the course had not been completed despite the lapse of 7 <sup>1/2</sup> years from the enrollment of the first batch for the degree course in the year 2009.
- (c) Although a paddy field is necessarily needed for the Institute for the Farm Practice Programme which is an indispensable feature of the Degree course, attention had not been drawn in obtaining a paddy field to the Institute on permanent basis and a small paddy field of 1 to 2 perches had been obtained for the Farm Practice Programme of the year 2016 on the payment of Rs.6000 for a cultivation season.
- (d) While there were orders for more than 41,000 tissue culture banana plants, which could not be fulfilled as at the date of audit and building the reputation of the Institute, appropriate action had not been taken to increase the production of banana plants and to reduce the cost of production of a banana plant.

##### **4.2 Operating Activities**

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The expired stock of chemicals valued at Rs.109,662 which had been purchased several years ago , had been destroyed in the year 2015 without a formal investigation.

##### **4.3 Transactions of Contentious Nature**

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While graduate courses had not been commenced under the Technology stream, a Project Manager had been recruited on assignment basis from 18 October 2014 and allowances amounting to Rs.225,000 and Rs.320,000 had been paid in the years 2014 and 2015 respectively.

#### **4.4 Apparent Irregularities**

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Neither harvest nor any income had been received by the Institute from the paddy cultivation of 2 ½ acres cultivated under the Framers Practice Programme.

#### **4.5 Underutilization of Funds**

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Despite the balance of Rs.45,318,622 existed in the Unutilized Capital Grants Account at the beginning of the year of account, a capital grant of Rs.65,000,000 had been obtained from the Treasury without correctly predicting the capital expenditure of the year and a sum of Rs.14,437,654 only had been spent during the year. Accordingly, a sum of Rs.95,880,968 had been retained underutilized in a bank current account.

#### **4.6 Idle and Underutilized Assets**

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The following observations are made.

- (a) Under the 60 Hostels Project implemented under the provisions of the Ministry of Higher Education, a hostel with 100 rooms had been constructed in the year 2014 by spending a sum of Rs.220,096,952 and the rooms between 4 and 8 had been utilized only in the period during which the examinations were conducted in 2014-2016.
- (b) As goods had been purchased without making proper prediction on the requirement of the Institute and the required period, 11 toners valued at Rs.84,214 used for the photocopy machines had been retained in the stores for more than a period of one year.

#### **4.7 Uneconomical Transactions**

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Despite the possibility of using the auditorium of the Institute for the award of certificates for 53 students of the second and third batches who had qualified the Diploma stage, the first stage of the course, a sum of Rs.350,000 had been spent for the utilization of Hambantota International Conference Hall for that purpose.

#### **4.8 Personnel Administration**

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Out of the 12 posts included in the approved cadre of the Institute 8 posts had been in vacant even by the end of the year of account. Nevertheless, without taking necessary action to fill those vacancies, 28 employees had been recruited on duty assigning basis without the approval of the Ministry of Higher Education.

**5. Accountability and Good Governance**  
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**5.1 Corporate Plan**  
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According to the Corporate Plan, plans had been drawn to enroll 175 students to the Agro Technology Diploma Course during the year 2015 and to produce 240,000 tissue culture banana plants of good condition. Nevertheless, the number of students enrolled was 118 and the banana plants produced was 185038.

**6. 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.

**Area of System and Control**  
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**Observations**  
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(a) Operating Control

Failure to introduce a methodology to retain the students enrolled until the end of the course.

(b) Fixed Assets Control

Failure to update the registers.

(c) Stock Control

Failure to make purchase on recognizing the requirement.

(d) Financial Control

Failure to comply with the circulars.