

Institute for Agro-Technology and Rural Science – 2016

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 2016 comprising the statement of financial position as at 31 December 2016 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 under Section 18 and Sub-section 107(5) of the Universities Act, No. 16 of 1978 and in terms of Sub-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

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

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 gives 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

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 2016 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

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.29,148,559 spent for the purchase of capital goods in the year under review should be transferred from the Unspent Capital Grant Account to the Spent Capital Account, only a sum of Rs.8,237,513 had been transferred to that Account. As such, a sum of Rs.20,911,046 had further remained in the Unspent Capital Account.
- (b) Even though the interest income received by cash had been shown as Rs.2,169,816 in the cash flow statement, the actual amount received, had been Rs.2,137,360, thus indicating an overstatement of Rs.32,456. As such, the balancing of the cash flow statement was problematic in audit.
- (c) The land of 50 acres in extent belonging to the Institute had not been valued and brought to account.
- (d) A sum of Rs.1,600,000 should be paid to the University of Moratuwa in the year under review for the preparation of plans on the usage of the land on which the Institute is located and provisions had not been allocated therefor.
- (e) Even though the interest income receivable in the year under review amounted to Rs.2,162,150, it had been indicated as Rs.2,055,648. As such, the current assets had been understated by Rs.106,502.

2.2.2 Unexplained Differences

The following observations are made.

- (a) Even though the distress loan balance shown under current assets of the financial statements of the year under review amounted to Rs.217,640, according to the Register of Distress Loans, that balance was Rs.224,583, thus indicating a difference of Rs.6,943.
- (b) According to the Registers, the interest income receivable as at the end of the year relating to the loan granted under the Farmers' Trust Fund amounted to Rs.289,980. However, according to the financial statements, it had been Rs.53,500, thus indicating a difference of Rs.236,480.
- (c) Even though the stock balance shown in the financial statements of the year under review amounted to Rs.4,775,743, according to the stock verification report as at the end of the year, that value had been Rs.4,294,217, thus indicating a difference of Rs.481,526.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non-compliance
-----	-----
(a) University Grants Commission Circular No.636 of 14 July 1995	Even though the results of examinations should be issued within 03 months since the date of conducting of those examinations, it was observed that a period from 04 months to 19 months had elapsed for the issuance of results of 18 examinations conducted by the Institute.
(b) Public Finance Circular No.03/2015 dated 14 July 2015.	(i) Advances totalling Rs.804,220 had been granted to 12 Non-staff Grade Officers in 26 instances contrary to provisions of the Circular. (ii) Advances totalling Rs.382,000 had been granted in 7 instances without preparing correct estimates in granting advances and out of that, an amount from 51 per cent to 85 per cent had been resettled by cash.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year under review had been a deficit of Rs.10,828,494 as against the surplus of Rs.5,991,049 for the preceding year, thus indicating a deterioration of Rs.16,819,543 in the financial result of the year under review as compared with the preceding year. The increase in the employees' remuneration and provisions for gratuity by Rs.8,622,776 and the decrease in the amortization by Rs.9,014,133 had been the main reason for the above deterioration.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus had been improved with variations from the year 2012 to the year 2015 and there had been a deficit in the year 2016. However, in readjusting the employees' remuneration and the depreciation for the non-current assets to the financial result, the contribution which was Rs.8,197,837 of the year 2012 had continuously increased to Rs.34,603,218 in the year 2015. Nevertheless, it had decreased to Rs.27,126,300 in the year 2016 as compared with the year 2015.

4. Operating Review

4.1 Performance

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 those objectives.

(a) Production of Tissue Culture Banana Plants

Improvement of the income of the Institute and the farmers through increasing the production of tissue culture banana plants, had been set out as an objective of the Corporate Plan of 2016-2020. However, it was revealed in the examination of data on the demand, production and sale of plants in the years 2014, 2015 and 2016 that the Institute had failed to achieve those objectives.

- (i) The demand for plants had vastly increased annually and in relation to that, production had vastly decreased. The production in relation to the demand in the years 2015 and 2016 had been 44 per cent and 37.6 per cent respectively. As such, it was observed that many buyers had cancelled their orders and as a result, the expected objectives of the Institute could not be achieved and that the income which can be obtained, had been deprived of.

- (ii) Even though there were separate Registers for receipt of orders of plants and issue and sale of plants, those Registers had been maintained improperly. As such, it could not be clearly identified in audit that whether the plants had been issued or cancelled according to the orders and whether they were issued in ensuing months.
 - (iii) Even though the production cost per tissue culture banana plant had been expected to decrease to Rs.40 in the year 2016, the production cost had increased to Rs.71. Moreover, even though the ratio of destroying of plants had been expected to reduce to 1.5 per cent, that value had increased to 11.3 per cent.
- (b) According to the Strategic and Management Plan of 2016 – 2020, it had been planned to be obtained an income of Rs.1.62 million from sale of papaya plants and Rs.1.2 million from sale of other fruit plants, those objectives could not be achieved. The Institute has been engaging only in the activity of culture of banana plants for a period of 09 years from the year 2008 to the year 2017 and attention had not been paid on tissue culture of any other crop.
- (c) A vegetable and fruit dryer operated by using biofuel had been given to the Institute on 21 March 2016 by the Sri Lanka Sustainable Energy Authority and the objective of the granting of this machine was the improvement of the education and the relevant technical knowledge of the students and popularize this method among small and rural industrialists under the food production and agricultural field.

The following observations are made in this connection.

- (i) Even though the Director of the Authority had informed that an agreement should be entered into with the Sustainable Energy Authority for exchanging data and information on programmes and activities, such an agreement had not been entered into therefor.
 - (ii) Action had not been taken to assess and account the value of this machine received as a grant and this machine had been kept in the motor vehicles park of the Institute in an unprotected manner without installing in a suitable place.
 - (iii) This machine had been made use of for other objectives except for the practical trainings of students.
- (d) Academic activities of the first student batch, enrolled for the Agro Technology Degree Course had been commenced in the year 2009 and the final examination had been conducted in the year 2016. The Degree Course consists of three stages and 26 out of 60 students who had registered as the first batch for the course, had dropped out of the course without completing the first stage. Only 25 students had completed the Higher Diploma Stage and only 09 students had completed the Degree Stage. The Institute had not taken follow up action and remedial measures on the drop out of studies by 85 per cent of the number of students who had been enrolled for courses.

4.2 Management Activities

The following observations are made.

- (a) The outstanding loan installments of Rs.301,570 from the loan granted in the years 2014 and 2015 to three farmers from the Farmers' Trust Fund and outstanding loan installments of Rs.114,660 from the loan granted in the years 2012 and 2014 granted to five farmers by the Rural Entrepreneurship Development Programme, had not been recovered even by the end of the year under review.
- (b) Even though the Lightning Projection System constructed at a cost of Rs.2,746,292 in the year 2015 to minimize the lightning strikes, had been handed over on 16 January 2016 by the relevant contractor, the relevant retention money had not been released due to defects of that system. However, those defects had not been repaired up to 30 June 2017, the date of audit and the guarantee period given for this system as well had expired.

4.3 Staff Administration

The following observations are made.

- (a) The approved cadre of the Institute stood at 26 while the actual cadre stood at 05. As such, 21 vacancies existed in the entire staff, including 3 in the post of Senior Lecturer and 4 in the post of Temporary Demonstrator in the academic staff.
- (b) The Institute had recruited 46 employees on assignment basis for the non-academic staff only on the approval of the Board of Management without the approval of the Ministry of Higher Education.
- (c) The Institute had a cab motor vehicle, a two wheeler tractor and a four wheeler tractor and only one driver had been recruited on assignment basis without making permanent recruitments for vacancies in the post of Driver. However, the Institute had notified that the post of Driver had not been approved for making recruitments for the vacancies existed.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Even though the Ministry of Higher Education had constructed a hostel with 100 rooms which can accommodate up to 400 students in the year 2014 in the Institute by spending a sum of Rs.220,096,952 under the 60 Hostels Project, necessary furniture had been supplied only for 45 rooms therein. Further, it was observed that no students are boarded in full time in this hostel and they are boarded only on days on which the examinations and practical tests are conducted.

- (b) A priority plan had been prepared by entering into an agreement on 20 October 2016 with the Consultation Unit of the Faculty of Architecture of the University of Moratuwa to pay a sum of Rs.1,600,000 for the preparation of plans indicating the manner in which the barren land of 40 acres in extent is used from the land of 50 acres in extent, where the Institute is located. However, the Management had not paid attention on the preparation of the land with agricultural crops as an example to the society and this land had not been made use of for any useful purpose.
- (c) Out of 35 computers granted by the Ministry of Higher Education in the year 2014 to the Computer Laboratory of the Institute, 14 computers were unserviceable and a proper action had not taken by the Management in that connection.

5. Accountability and Good Governance

5.1 Budgetary Control

Even though a sum of Rs.1,400,000 had been allocated in the budget for the year under review for the objective of developing of entrepreneurs, no activity whatsoever had been performed in that connection during the year.

6. Systems and Controls

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.

Areas of Systems and Controls	Observations
-----	-----
(a) Fixed Assets Control	Failure to make use of the land owned by the Institute for useful purposes and to categorize Registers of Assets clearly.
(b) Staff Administration	Failure to revise the approved cadre according to the requirements of the staff and to take action to fill vacancies.
(c) Debt Control	Failure in taking action for the recovery of loans.