

1.1 Qualified Opinion

The audit of the financial statements of the Institute for Agro-Technology and Rural Science affiliated to the University of Colombo for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and 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 provision of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report 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 statement 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 sections 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 Management and related parties responsibility 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 Institutes 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 Auditors Responsibility 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 and error and to issue an auditors 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. Misstatement 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, misrepresentations, or the override of internal control.
- Obtain an understanding of Institute's internal control relevant to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Reasonable evaluate the appropriateness of accounting policies and reasonableness of accounting estimates that are used and related disclosures followed by the management.
- Determined on the relevance of using the institute's going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty Institute's going concern due to events or condition. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors report to the related disclosures in the financial statements and if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of auditors report. However, future events or conditions may cease on going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements, including relevant and fair base on transaction and events.

The audit scope are expanded to check the following in whenever possible and when ever necessary.

- 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 power, function 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 about preparation of Financial Statements

The Institute need to maintain an adequate “well-designed” internal accounting control system to ensure fairness for implement transaction management with general and specific authority, record transaction as required to prepare financial statements in compliance with applicable reporting standards and maintain accountability for assets, access to assets only with the general and specific authority of management, accountability for recorded assets compares with available assets at reasonable times and takes corrective action if any.

1.5.2 Non – compliance with Sri Lanka Public Sector Auditing Standards

Non compliance with the reference to particular Standard	Management Comment	Recommendation
Due to not reviewing the effective life time of the non current assets yearly in terms of the Public Sector Accounting Standard 07, Property Plant and Equipment but still in use as at the date of accounts submitted which amounted to Rs.1,989,274 had been fully depreciated. Accordingly actions had not been taken to revised the estimate error in accordance with Sri Lanka Public Sector Accounting Standards.	Agreed with your observation. It is informed to correct from the final accounts in year 2019.	Should be accounted according to the accounting standards.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Issue	Management Comments	Recommendation
(a) Even though according to the cash flow statement, cash out flow from the purchase of Fixed Assets and work-in-progress stated as amounting to Rs.99,919,432 while checking the vouchers that value was amounting to Rs.100,564,540 thus difference amounting to Rs.645,108 had been observed.	When checking the vouchers the 12 months salary which was paid to the technical officer had been added and except that value examine about other differences and actions will take to remove those differences from the accounts.	Should be accounted correctly.

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| (b) | Gratuity for the year had been under provided by Rs.237,526. | This amount consist an officers under provision for gratuity payment. This under provision will be correct further in next accounting year. | Provisions should be calculate correctly. |
| (c) | Depreciation expenditure during the year under review had been over stated by Rs.87,374 due to calculating the depreciation of 38 items of plant, machinery and office equipment shown under Fixed Assets on which the expected life time is 10 years but considering the expected life time as 5 years and 6 years. | Agree with your observation. It is informed to correct from the final accounts of year 2019. | Should be accounted on correct depreciation percentages based on expected life time. |

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit observation -----	Management Comments -----	Recommendation -----
Balance amounting to Rs.1,582,935 out of the loan valued at Rs.3,024,000 which was given to 16 students from Farmers Trust Fund, amounting to Rs.58,100 out of the loan valued at Rs.312,000 which was given to three students in year 2012 under the programme of Rural Entrepreneur Development and a loan balance of Rs.420,810 from 06 students under the loan scheme of ‘planting material’ had not been recovered.	After receiving the approval of the committee of legislation it is expected to take legal actions against students who were defaulted loan installments.	Loan receivables should be recover efficiently.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc. -----	Non-compliance -----	Management Comments -----	Recommendation -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 371 and Public Finance Circular No.03/2015 dated 14 July 2015	Even though sub imprests should be settled immediately after the completion of the relevant purpose, sub imprests totaling Rs.477,500 obtained in 08 instances had been settled after delays ranging from 65 days to 180 days.	Only two persons can be obtained sub imprests and this had been delayed by mistake while settling and be responsible such things were not happen in future.	Should be act in terms of the financial provisions of the regulations and circulars.

- (b) Public Finance Physical verification of To achieve this activity in Should be act in
Circular No.2/2014 goods should be ended formal manner assigned to terms of the
dated 17 October before 15 January in each Accounts Branch of the provisions of the
2014 financial year and last year District Secretariat of circulars.
report of verification should Hambantota as external
be sent to Auditor General party and due to the heavy
with a copy to chief work load of the duties of
accounting officer before 17 that party physical
March and it had not been verification was delayed.
done so.

2. **Financial Review**

2.1 **Financial Results**

The financial result for the year under review had been a deficit of Rs.4,019,352 as against the surplus of Rs.1,201,287 in the preceding year. Thus indicating a deterioration of Rs.5,220,639 in the financial result. Decrease in sales income of tissue culture plants and increase the expenditure of Personal Emoluments had been main reasons for the above deterioration.

2.2 **Trend Analysis of major Income and Expenditure items**

subject	2018 Rs.	2017 Rs.	Difference Rs.	Percentage %
Income	15,219,211	19,550,958	(4,331,747)	(22)
Interest income	1,502,520	3,968,763	(2,466,243)	(62)
Earned income (others)	17,623,404	5,565,396	12,058,008	217

The following observations are made.

- (a) Due to the decrease of Banana Plant production and sales in the year under review compare with the year 2017, income by 22 per cent and due to the redemption of the investment amounting to Rs.78 million which was in year 2017 the interest income had been decreased by 62 per cent.
- (b) The earned income had been increased by 217 per cent due to the increase of the number students by 277 in year 2018 while the enrolled number of students were 178 in year 2017.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Management Comment -----	Recommendation -----
(a) Actions had been taken to introduce this institute as faculty of Agro-Technology of University of Colombo in year 2018 and according to the new proposal it was planned to conduct 02 degree courses by establishing 04 academic sections. But the approval of the University Grant Commission had not been received even by the end of the year under review.	At the moment the approval for this had been received to the Quality Assurance Council of the University Grant Commission and discussions being in the standing committee of the University Grant Commission.	After obtaining the approval actions should be take to start courses.
(b) Even though by establishing the institute and its constructions had been done in a extent of 50 acres area which was owned to the Department of Wild Life Conservation, the ownership of its had not been transferred even by the end of the year under review.	All activities relating to the transfer to the legal ownership of the land of 50 acres which should be done by the institute had been over. Tax amounting to Rs.1,080,000 had been sent to Divisional Secretariat of Lunugamvehera for the block of this land of 50 acres and accordingly, the legal documents were signed in the end of the year 2017 at the Department Of Land Commissioner relevant to the 50 acres, but those documents were not received for us yet.	Action regarding the to transfer of the legal ownership of the land should be ended immediately.

3.2 Idle or under utilized property Plant and Equipment

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
Number of 145 library books purchased in years 2016 and 2017 owned to the institute valued at at Rs.643,498 which had in the institute, due to not having a library in the institute opportunity had not been to use those books effectively to the students even by the end of the year under review.	Those books had been given though lectures for the use of the students and actions had being taking to get a place quickly.	A suitable procedure should be prepare immediately for use those books.

3.3 Procurement Management

The following observations are made.

<u>Audit Observation</u>	<u>Management Comment</u>	<u>Recommendation</u>
(a) According to the procurement plan a sum aggregating to Rs.47,870,000 of 21 procurements had not been done during the year under review.	Most procurement had been done on the financial difficulties such as provisions which was given by the government had not been received on time and the approved total sum had not been received, there fore under that circumstances situation most planned procurements had been delayed and receivable sum amounting to Rs.3.05 million had not been released yet.	procurements should be done in accordance with the procurement guide lines and transparency.
(b) Even though the responsible of the procurement committee is to review and approve the specifications which was prepared for the procurements in terms of the guide lines 2.8.1 of the procurement guide lines, the said approval had not been obtained for 06 procurements valued amounting to Rs.1,816,348 during the course of the audit test checks.	Accordingly to function the activities of all sections in proper manner a limited staff available and difficult to function all activities as planned.	
(c) Even though bids should be opened soon after the closing of bids in terms of the guide 6.3.3(b) of the procurement guide lines. In 06 instances bids had been opened exceeding the due date delaying 02 days to 38 days.		

3.4 Human Resources management

<u>Audit observation</u> -----	<u>Management Comments</u> -----	<u>Recommendation</u> -----
(a) Although the approved cadre of the Institute in year 2018 was 36 whereas the actual cadre was 11 thus 25 entire posts were vacant. Out of which 05 vacancies of lecturers relating to the academic staff had been existed.	Out of the approved cadre of the institute 24 posts were non academic posts and in terms of the circular 876 recruitments should be done the list of Ministry of Higher Education in accordance with a specific procedure. It is expected to recruit non academic posts before the end of the year 2019. Out of the 05 lecturers of the academic staff one lecturer had been recruited by following the specific procedure of recruitment and to recruit the balance two of them referred to the University Grants Commission for the approval and in the first half of the year 2019 it was informed that the approval was not getting and applications were recalled by publishing advertisements.	vacancies should be filled immediately.

4. Accountability and Good Governance

4.1 Annual Action Plan

<u>Audit observation</u> -----	<u>Management Comments</u> -----	<u>Recommendation</u> -----
While checking the activities of the Action Plan and its progress according to the performance indicators in year 2018 it was observed that any progress had not been obtained in 11 activities and low level of progress between 2 per cent to 33 per cent had been observed in 06 activities.	Due to not approving the sufficient capital funds to the institute and not receiving the approved sum activities included in the action plan ended with out progress. The action plan will be prepared to continue those activities in proper manner during the next accounting period.	Actions should be taken with the objective of achieving the activities during the period included in the action plan.

4.2 Budgetary Control

Audit observation -----	Management Comments -----	Recommendation -----
While comparing the budget with the actual expenditure of the year under review the internal earned income had been decreased by 45 per cent than the estimated expenditure and comparing the budgeted provision with actual expenditure of 05 objects variations ranging from 23 per cent to 42 per cent had been existed.	Can be agree with the observation stated that there was a over forecast in the expenditure while comparing the budget and actual expenditure in the year under review, The reason for that the express development projects implementing in the institute. Implementing such activities capital expenditure as a well as recurrent expenditure could be incurred and it is practically impossible to depend on budgeted provisions. Accordingly the unexpected draw back of the tissue culture section caused the change of revenue forecast and preparing the budget in next year attention will be pay in this regard.	Budgeted should be prepared realistic and should be used an effective instrument of management control.