

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 2019 comprising the statement of financial position as at 31 December 2019 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 Sub-section 107 (5) of the Universities Act No. 16 of 1978 and Section 20 of the Institute of Agro Technology and Rural Sciences Regulations No. 01 of 1980 empowered under Section 18 and the section 12 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 2019 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 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 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 Auditor's 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 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. 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 is expanded to check the following in whenever possible and whenever 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 Statement

1.5.1 Non – compliance with Sri Lanka Public Sector Accounting Standards

Instance of the non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
Since useful lifetime of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, fixed assets costed Rs.12,039,944 were further in use despite being fully depreciated. However, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.	Agreed with your observation. Adjustment could not be made in the annual accounts in 2019 due to the delay in receipt of valuation report. Estimated values will be included accurately in the 2020 Final Reports.	Should be complied with the Sri Lanka Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
As per the policy adopted by the institute for calculating gratuity, the gratuity had not been calculated accurately and gratuity allocation as at 31 December of the year under review had been under stated by Rs.36,013 and the gratuity provision had been under stated by Rs.273,589 in the financial performance statement. Even though the annual expenditure on gratuity had increased by Rs. 4,463,622 or 362 percent compared to last year and Allocations for gratuities had increased by Rs. 5,648,563 or 95 per cent, the said	Agreed with your observation. Noted to adjust the relevant values in 2020 annual account. Necessary action had been taken to disclose in the 2020 account.	Calculations in gratuity and relevant disclosures should be made accurately.

estimated error had not been disclosed in the financial statements in accordance with Sri Lanka Public Sector Accounting Standards 03.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
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Out of the loans given to the students in the institute for the Promotion of Agricultural Technology by the Farmers' Trust Fund, operating under the provisions of the Ministry of Agriculture, in the years 2014 and 2015, the agreement period of 14 students had exceeded by 2 years to 4 years, but action had not been taken to recover the total loan balance of Rs.1,457,175 until the last day of the year under review.	Agreed. On the recommendations of the Audit and Management Committee, reminders have been sent to borrowers and guarantors that legal action will be taken to recover the money.	Prompt action should be taken to recover relevant loans.

1.6.2 Advances

Audit Observation	Comments of the Management	Recommendation
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Contrary to the Financial Regulation 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, a total advance of Rs. 154,900 had been given to non-staff officers in 03 instances during the year under review and between 30 and 140 days had been taken to settle the total advance of Rs. 240,000 as at 18 December 2019.	As there are only 02 staff officers available in the institute, advances had been given to 03 officers of the academic staff with the approval of the Board of Management. Delays in ordering plants due to employee's strike and inclement weather have led to delays in the settlement of these advances.	Should be act in accordance with the Financial Regulations.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) Sections 5 (ii) and 5 (iii) of the Extraordinary Gazette Notification No. 157 1/15 dated 16 October 2008.	No action had been taken to establish an Academic Syndicate and an Educational board as per the regulation.	Agreed. The required composition for an Academic Syndicate has been mentioned in the Section 13 of the Ordinance No. 02 of 2008 but due to lack of the required number of members, this Academic Syndicate and the Educational board could not be established.	The establishment of the Academic Syndicate and Educational Board should be expedited with necessary approval.
(b) University Grants Commission Circular No. 636 dated 14 July 1995	Even though the results should be released within 03 months from the date of the examinations, there was a delay in 02 to 2 1/2 months for releasing the results of the 04 examinations conducted by the institute in the year 2019.	Agreed. This situation has arisen due to overwork of academic staff but those who give late results are not eligible for examination allowances.	Need to be complied with the circular.

2. Financial Review

2.1 Financial Results

The operating result for the year under review had been a deficit of Rs.6,993,247 as against the deficit of Rs. 4,019,352 in the preceding year. Thus indicating a deterioration of Rs.2,973,895 in the financial result. A loss of the production activities and increase the expenditure in Personal Emoluments had been main reasons for the above deterioration.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
----- The main operation activity of the institute is the production and sale of tissue culture products and a loss of Rs. 1,422,395 and Rs. 12,370,640 were received for the years 2018 and 2019 respectively from it. The loss compared to 2018 had increased by Rs. 10,948,245 or 770 percent in the year under review. Although the increase in staff salaries and the decline in sales had been the main reasons for this, the management had not implemented a sales promotion program.	----- Agreed. This was mainly due to increase in direct labour costs, drop of sales revenue by 48 percent and fluctuating of demand for banana tissue with compared to the previous year.	----- Action should be taken to identify a program required to improve core operating income.