

## **Institute of Agro Technology and Rural Sciences affiliated to the University of Colombo - 2022**

### **1. Financial Statement**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Institute of Agro Technology and Rural Sciences affiliated to the University of Colombo for the year ended 31 December 2022 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 Institute of Agro Technology and Rural Sciences as at 31 December 2022, 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
Capital grants and grants received from the AHEAD project during the year under review amounted to Rs. 16,202,111 had not been recognized and measured in the financial statements in accordance with Sri Lanka Public Sector Accounting Standard 11.	That accurate financial statements will be presented in the accounting year 2023.	Financial statements should be prepared in accordance with Sri Lanka Public Sector Accounting Standards.

### 1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) Course fees receivable amounting to Rs.7,790,020 as on 31 December of the previous year had not been accounted for and the error was not corrected even in the year under review, as such, the accounts receivable and accumulated fund were under stated by that amount in the financial statements.	Income up to the year 2021 had been recognized on cash basis and had been correctly accounted according to the cash basis.	Since the institute follows Sri Lanka Public Sector Accounting Standards, revenue should be recognized and accounted for on accrual basis.
(b) Although value of fixed assets and livestock procurements during the year under review were Rs. 12,871,027, asset procurements under cash outflows from investing activities in the cash flow statement was stated as Rs.14,814,439. As such, that value was over stated by Rs. 1,943,411 in the cash flow statement.	That accurate financial statements will be presented in the accounting year 2023.	The cash outflows during the year should be accurately identified in preparing the cash flow statement.
(c) Due to depreciation had not been made for the assets transferred from the Building & Structures Rehabilitation account to the building account and other infrastructure account, and, further, due to depreciation had not been calculated according to the correct depreciation rate, depreciation amounted to Rs. 750,694 was under accounted for the year under review.	That accurate financial statements will be presented in the accounting year 2023.	Depreciation should be calculated and shown in the financial statements according to the correct depreciation rates.

## 1.6 Accounts Receivables and Payables

### 1.6.1 Accounts Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- Out of loans given to the students from the Farmers' Trust Fund in the years 2014 and 2015, the loans amounted to Rs. 685,790 had been defaulted by students as on 31 December of the year under review.	----- Letter of Demands will be sent through the Law Department of the University of Colombo as per the recommendations of the Audit Committee for students who have defaulted their loans and after the grace period of 06 months, a final announcement will be sent as per the recommendations of the audit committee.	----- A proper mechanism should be established and implemented for recovery of loan installments.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- University Grants Commission Circular No. 636 dated 14 July 1995	----- Contrary to the provisions of the circular, the delay in releasing the results of 13 examinations conducted in the years 2021 and 2022 ranged from 26 days to 360 days.	----- Presently, the exam results will be released within 03 months.	----- The exam results should be released within the stipulated 03 months.

## 2. Financial Review

### 2.1. Financial Results

The operational result of the Institute of Agro Technology and Rural Sciences of the year under review had been a surplus of Rs. 2,663,499 and as compared with the corresponding surplus of Rs. 15,469,394 for the preceding year, thus observing a deterioration of Rs.12,805,895 in the financial result. Although the total income was increased compared to the previous year, increase in employees salaries, supplies expenses, administrative expenses and other recurrent expenses had been the main reasons for the said deterioration.

## 2.2 Trend Analysis of major Income and Expenditure items

2.2.1 Although the sales revenue of selling plants had increased from Rs.5,892,590 to Rs.10,158,258 by 72 percent in the year under review compared to the previous year, the cost of sales had increased from Rs.16,925,243 to Rs.21,642,848 by 28 percent. Accordingly, the gross loss had increased from Rs.11,032,653 to Rs.11,484,590 by 4 percent.

2.2.2 The government recurrent grants increased from Rs. 78,170,000 to Rs. 101,421,000 by 30 percent, rental income had increased from Rs. 388,461 to Rs. 1,820,310 by 369 percent, other recurrent expenses had increased from Rs.8,911,861 to Rs.24,028,431 by 170 percent and supply expenses had also increased from Rs.3,818,709 to Rs.6,777,744 by 77 percent compared to the previous year.

## 2.3 Ratio Analysis

The current assets ratio was reduced from 2.3 to 1.9 and the quick assets ratio was reduced from 1.8 to 1.4 compared to the previous year, as such, the institute liquidity was reduced compared to the previous year.

## 3. Operational Review

### 3.1 Identified Loses

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
----- A cost of Rs.16,808,314 was incurred for the production of banana and turmeric plants in the year under review but due to the sale price was not decided to cover the cost, a loss of Rs.6,651,276 was incurred by selling those plants.	----- Due to the restriction of import of turmeric from abroad, the production was made base on the demand for the product, but the demand for turmeric plants was relatively low in the year 2022, and the sales income was low due to the difficulties in selling the products.	----- Action should be taken to achieve the desired goals through the relevant project.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>-----</p> <p>Out of 1637 students enrolled in the Bachelor of Agricultural Technology course from the year 2017 to 31 December of the year under review, 458 students equal to 28 percent of the total number of students had left the course mainly due to financial difficulties of the students.</p>	<p>-----</p> <p>The main reason for leaving the course has been identified as inability to pay the course fees due to financial difficulties.</p>	<p>-----</p> <p>Action should be taken to follow a concessional program for students who drop out of courses due to financial difficulties.</p>