

## **Postgraduate Institute of Agriculture - 2015**

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The audit of the statement of financial position as at 31 December 2015 and the financial statements of the Postgraduate Institute of Agriculture for the year ended 31 December 2015 comprising 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 20 of the Ordinance published in the Gazette Extraordinary No. 68/11 of 26 December 1979 and Sub-section 107(5) of the Universities Act, No. 16 of 1978. 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 judgement, 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 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 Postgraduate Institute of Agriculture 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 non-compliances were observed.

(a) **Sri Lanka Public Sector Accounting Standard 03**

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Even though an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after the discovery, adjustments totalling Rs.24, 723,016 and Rs.21,816,514 in the statement of financial position and the statement of financial performance respectively audited in the year 2014 had been revised in the presentation of financial statements of the year under review.

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

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Even though 06 items of assets costing Rs.42,134,565 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they had still been in use. Accordingly, action had not been taken to revise the estimated error in terms of Public Sector Accounting Standard 03.

##### **2.2.2 Lack of Evidence for Audit**

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Even though a payment of Rs.682,359 had been made as Research Allowances in the year under review, the approval for research proposals and the progress reports had not been made available to Audit.

### 2.3 Accounts Receivable and Payable

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Laboratory and library deposits totalling Rs.241,510 of 67 students had been shown as deposits in the financial statements over a period exceeding 10 years without being settled.

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

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non- compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 156	Even though the survey of library books carried out in the years 1987,1995,2004 and 2014 had revealed that 11,624 books were misplaced, action had not been taken even by the end of the year under review to recover the loss suffered by the Institute from the parties responsible.
(b) Establishments Code for the University Grants Commission and Institutions of Higher Education Section 6.2 (ii) and (iii) of Chapter VIII of Part II	Even though 10 per cent of the earnings generated through a service performed in addition to one's duty should be paid to the Institution of Higher Education to which he belongs, a sum of Rs. 1,780,591 out of the sum of Rs. 17,805,918 paid as fees for visiting lecturers during the year under review of the Postgraduate Institute of Agriculture, had not been abated at the instance of payment and credited to the Universities' Fund.
(c) Public Enterprises Circular No. PED /12 of 02 June 2003 Section 9.2	A budget on human resources had not been prepared.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the financial result of the year under review had been a surplus of Rs.47,077,925 as compared with the corresponding surplus of Rs.45,415,823 for the preceding year, thus indicating an improvement of Rs.1,662,102 in the financial result for the year under review. The increase in the income by Rs.8,545,547 despite the increase in the expenditure by Rs.6,883,444 had been the main reason for the above improvement.

An analysis of the financial results of the year under review and 04 preceding years had revealed a surplus from the year 2011 up to the year 2015 and in considering the employees remuneration and depreciation on non-current assets, the contribution of the Institute amounting to Rs.58,259,174 for the year 2011 had continuously improved to Rs.113,171,141 in the year 2015.

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

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##### **4.1 Performance**

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The following observations are made.

(a) According to the Postgraduate Institute of Agriculture Ordinance No.9 of 1979, the objectives of the Institute are given below.

- Achieve and maintain high academic standards of postgraduate degrees
- Instill high professional and leadership qualities among postgraduates
- Inculcate high ethical and moral values in postgraduates
- Produce postgraduates capable of adapting to the rapidly changing global developments
- Promote basic and applied research of high standards and build capacity for innovative research among students
- Ensure a cadre of competent and committed academic staff and an effective administrative, technical and support staff to organize and implement the academic progress
- Dissemination of knowledge
- To develop the library to be the leading agriculture information resources library
- Strengthen institutional capacity
- Achieve excellence as a center for postgraduate education and research in the Asian region and beyond.

(b) According to the information on performance, the decrease in the registration of students for the **Master of Philosophy and Doctorate** of the Postgraduate Institute of Agriculture in the years 2014 and 2015 had been 27 per cent and 62 per cent respectively as compared to the preceding year.

##### **4.2 Transactions of Contentious Nature**

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According to the decision No.433.3.3.10 made by the Board of Governors of the University of Peradeniya, a retired officer **could be employed on assignment basis** for a maximum period of 12 months. Contrary to that, **an officer had been employed** for a period of 18 months and paid salaries a sum of Rs.300, 000 for the **additional** period of 06 months.

### 4.3 Underutilization of Funds

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The following observations are made.

- (a) A sum of Rs.832,678 pertaining to 03 **Research Aid Project Accounts** shown under the “Limited Funds” in the statement of financial position of the year under review **had remained idle**.
- (b) Sums amounting to Rs.289,428,611 and Rs.11,016,356 from the General Fund and the Research Fund of the Institute respectively had been invested in time and fixed deposits **instead of utilizing the excess funds of the Institute for the achievement of objectives and goals of the Institute**.

### 4.4 Staff Administration

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The following observations are made.

- (a) Instead of recruiting permanent Lecturers for 06 posts of Professors and 04 posts of Senior Lecturers which had been vacant since the inception of the Institute, all academic purposes had been fulfilled by engaging 162 visiting Lecturers. As such, a sum of Rs.21,115,750 had been paid as lecture fees during the year under review.
- (b) Even though the Senior Assistant Librarian of the Institute had retired on 15 November 2014, action had not been taken to appoint a permanent officer for that post even as at the end of the year under review.

## 5. Accountability and Good Governance

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### 5.1 Internal Audit

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Even though every Internal Audit Unit of each institution should prepare an Internal Audit Report quarterly in terms of the Audit Guidelines Circular No. DMA /2009 (1) of 09 June 2009 issued by the Secretary to the Ministry of Finance, those reports had not been furnished to the Audit Committee on due dates.

### 5.2 Audit Committee

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The Audit Committee had not presented its observations and recommendations to the Board of Directors of the Institute in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/ 12 of 02 June 2003 and further it was observed that the following activities had not been **carried out** by the Audit Committee.

- (a) Presentation of Committee Reports containing the observations to be included in the Annual Report.
- (b) Review on the proposals / guidelines presented to the Committee of Public Enterprises.
- (c) Review and **taking** future action on the reports and management letters on the internal / external audit.

**5.3 Procurement Plan**  
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Even though a Master Procurement Plan had been prepared for the year under review in terms of the provisions in the Government Procurement Guidelines, procurement activities expected for a minimum period of 03 years had not been included therein. Further, **the procurement activities for the ensuing year had not been prepared in detail** and the Master Procurement Plan had not been properly updated at intervals not exceeding 06 months.

**5.4 Budgetary Control**  
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Variances ranging between 6 per cent and 100 per cent were observed between the budgeted income and expenditure and the actual income and expenditure in respect of 56 Items, thus it was observed that the budget had not been made use of as an effective instrument of financial control.

**6. Systems and Controls**  
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Weaknesses in the systems and controls observed during the course of audit were brought to the notice of the Director from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Utilization of Funds	Non-utilization of grants so as to achieve the relevant objectives
(b) Maintenance of Books and Registers	Failure to take action in terms of Financial Regulations and relevant Circulars