

Postgraduate Institute of Science - 2014

The audit of financial statements of the Postgraduate Institute of Science for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income , 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 21 of the Ordinance Published in the Gazette Extraordinary No.909/13 of 09 February 1996 and Sub-section 107(5) and Sections 108 and 111 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

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 Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan 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 judgment, including the assessment of the risks of material misstatement 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 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. Sub-sections (3) and (4) of section 13 of the Finance Act, No. 38 of 1971 give 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

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 Postgraduate Institute of Science as at 31 December 2014 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 Lack of Evidence of Audit

The evidence relating to 04 items of account totalling Rs.12,281,632 of the year under review, indicated against those items had not been furnished to audit.

Items -----	Value ----- Rs.	Evidence not made available -----
a) External Lecture Fees	3,091,055	Confirmation of Balances and Detailed Schedules
b) Payment Vouchers	2,263,452	Documents in Support of Payments
c) Resource person allowances	2,162,125	Document, in support of payments
d) Co-ordination, Consultation and other Allowances relating to the Project on the Proposed Construction of a new Road between Kandy and Badulla	4,765,000	Documents in support of Expenditure
 Total	 <u>12,281,632</u>	

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

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc. -----	Non-compliance -----
a) Section of 11(h) and 1 of the Postgraduate Institute of Science Ordinance	Even though subsidiary legislation should be made for the conduct of the affairs of the Institute had not been made up to 15 March 2015.
b) Employees Provident Fund Act, No. 15 of 1958 and Letter No. 30/අගනෙ/ 11 dated 24 August 2001 of the Commissioner General of Labour.	The academic allowance is not defined as cost of living allowance and as such it should not be taken in to account for the contributions to the Employees Provident Fund, the Pensions Fund, and the Employees Trust Fund. Nevertheless, action contrary to

that had been taken for the payment of contributions of the Academic Staff of Institute, to the Funds referred to above amounting to Rs.243,846 by the Institute.

- c) Section 3 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
In the recovery of loans, the installments together with the interest thereon should be recovered in monthly installments. Nevertheless the monthly installments for March and December 2014 amounting to Rs.54,632 had not been recovered.
- d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 371(5)
Even though the surrender of the balance of the advance should not be delayed beyond 31 December of the year in which it was granted, the settlement of advances amounting to Rs.100,000 granted during the year under review had not been made even by 15 March 2015.
- e) Treasury Circular No.1A1/2002/02 of 28 November 2002
Paragraphs 02,03,04,05 and 06
Even though Register of Fixed Assets for Computers, Accessories and Software should be maintained, such register had not been prepared for computers, accessories and software valued at Rs.5,484,339

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- a) According to paragraph 02 of the Circular No.95 dated 14 June 1994 of the Department of Public Enterprises and the Circular No.PE/1/174/1-2003 dated 29 January 2003 of the Ministry of Finance, in the payment of allowances to the staff of the University for the performance of duties of the Centres in the University, the approval of the Cabinet of Ministers or the Treasury should be

obtained. Nevertheless a sum of Rs.373,251 comprising co-ordination allowance amounting to Rs.319,355 and honorarium allowance amounting to Rs.53,896 had been paid without obtaining such approval.

- b) According to the University Grants Commission Circular No.07/2014 of 17 July 2014, prepared based on the letter No.DMS/1258(A) dated 01 July 2014, allowances amounting to Rs.713,873 had been paid without the approval of the Treasury to 23 officers of the Post-graduate Institute of Agricultural Science in respect of the period July to December of the year under review.
- c) Even though Rs.12 only can be paid per kilometre for a petrol motor vehicle in terms of the Public Administration Circular No.6/2010 of 07 June 2010, the officers of this Institute had been paid Rs.25 per kilometre without formal approval. Such overpayments totalled Rs.64,779.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2014 amounted to a surplus of Rs.29,062,240 as compared with the corresponding surplus of Rs.23,227,021 for the preceding year, thus indicating an improvement of Rs.5,835,219 in the final result. The increase of supplies and services expenditure and other recurrent expenditure by Rs.1,388,224 and Rs.693,545 respectively and the rapid increase of course fees and sundry income by Rs.9,867,660 and Rs.777,821 respectively had been the main reasons for the improvement of the financial result.

4. Operating Review

4.1 Management Inefficiencies

The approval of an authorised officer had not been granted for 29 Journal Vouchers valued at Rs.49,209,792 relating to financial statements for the year 2014.

4.2 Underutilisation of Funds

Twelve Research Fund balances totalling Rs.5,729,728 received from external parties had been balances carried forward over periods ranging from one year, 6 years and the officers responsible had not taken action either for the settlement of those or for utilisation on the respective research activities.

4.3 Idle and Underutilised Assets

Even though all surplus funds should be utilised in Fixed deposit, Treasury Bills short term investments or other gainful investment in term of Section 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and Section 11 of the Finance Act, No.38 of 1971, sums of Rs.19,938,274 at the beginning of the year under review and Rs.38,231,119 at the end of the year under, had been retained in 06 Bank Accounts.

4.4 Deficiencies in Contract Administration

The Director of the Institute had entered into a contract agreement for Rs.712,803 with a Private Institution in January of the year under review for partitioning of the office. Even though the completion of the contract had been delayed by 07 months, it had not been possible to recover liquidated damages, due to the failure to include a condition for the recovery of liquidated damages in the event of delay in the completion of the contract.

4.5 Staff Administration

The following observations are made.

- a) Six and eight vacancies in the academic and non-academic staff of the Institute respectively existed even by 27 February 2015, the date of audit.
- b) Human Resources planning had not been done in terms of Section 9.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003

5. Accountability and Good Governance

5.1 Corporate Plan

Action had not taken to compare the information in the Corporate Plan prepared on long term goals with the data of the Action Plan and the budget and update the Corporate Plan. As such differences ranging from 8 per cent to 40 per cent were observed in 06 items and as such the Corporate Plan was not observed as an effective plan.

5.2 Internal Audit

An Internal Audit Unit had not been established in Institute and the internal audit work had been done by the Internal Audit Unit of the University of Peradeniya. But an internal audit covering the activities in the Internal Audit Programme for the year under review had not been carried out. Even though paragraph 09 of the Management Audit Circular No.DMA/2009/(1) dated 09 June 2009 of the Secretary of Ministry of Finance has set out the reports to be prepared annually by an Internal Audit Unit of an institution and the target dates for submitting such reports, the reports had not been submitted on the target dates.

5.3 Budgetary Control

The following observations are made.

- a) (i) The Annual Budget had not been made use of as an instrument for the achievement of the objectives of year as specified in Section 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003.
- (ii) A comparison of the budgeted expenditure and the actual expenditure revealed that under-provisions totalling Rs.3,026,000 had been made for 13 items of expenditure and over-provisions totalling Rs.10,151,000 had been made for 16 items of expenditure.

- b) Expenditure totalling Rs.1,850,000 relating to 05 items which had not been included in the budget had been incurred during the year under review without authority. Even though provision amounting to Rs.1,300,000 had been made in the budget for 02 objects, no expenditure whatsoever had been incurred during the year under review.
- c) A comparison of the budgeted income and the actual income revealed that an estimate of income amounting to Rs.16,479,000 had been made under 08 items of income.
- d) Even though a budgeted balance sheet should be presented with the budget in terms of Section 5.2.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, a budgeted balance sheet for the year under review had not been furnished.

6. Systems and controls

Weaknesses in 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.

- a) Accounting
- b) Staff Loans Control
- c) Researches and Grants
- d) Stock Control