

Postgraduate Institute of Agriculture - 2013

The audit of financial statements of the Postgraduate Institute of Agriculture for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 in terms of 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 University in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for Financial Statements

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

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 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. 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 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 2013 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 Sri Lanka Public Sector Accounting Standards

Action in terms of Sri Lanka Public Sector Accounting Standard No. 07 had not been taken to revalue and account for 08 items of assets purchased for Rs.81,659,309 depreciated up to zero value but being further used.

2.2.2 Accounting Deficiencies

The annual salary totalling Rs.255,642 paid to a Driver recruited on assignment basis in the year 2013 had been shown under the Special Services Programme instead of being shown under the Salaries and Wages Object.

2.2.3 Lack of Evidence for Audit

The evidence indicated against the following 13 items of account of the year under review totalling Rs.204,367,725 had not been presented to audit.

Item	Value	Evidence not made available
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	Rs.	
Lands and Buildings	73,738,756	Board of Survey Reports and Registers of Fixed Assets
Furniture and Fittings	1,655,035	- Do -
Office Equipment	11,163,827	- Do -
Motor Vehicles	14,495,000	- Do -
Library Books and Periodicals	34,001,492	- Do -
Laboratory and Teaching Equipment	44,488,869	- Do -
Telephones	34,915	- Do -
Equipment of Housing Project	490,749	- Do -
Retention Money	711,654	Letters of Confirmation of Balances
Other Deposits	157,800	- Do -
Prepayment of Registration and Other Charges	481,911	- Do -

Course Fee Income received in advance	20,349,767	- Do -
Income received in Advance	2,597,950	- Do -

Total	204,367,725	
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2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) Finance Act, No. 38 of 1971	
Section 11	Even though the surplus money of an institution can be invested with the approval of the appropriate Minister and concurrence of the Minister of Finance, a sum of Rs.121,000,000 had been invested in the year under review without such approval.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
(i) Sections 3.7 and 3.8 of Chapter XXIV of the Establishments Code	After the grant of a loan, the recovery of the loan installments should commence from the month following. Nevertheless, the loan installments totalling Rs.214,535 in respect of April and December relating to the loans granted in the year under review to 27 officers had not been recovered.
(ii) Sections 28.5 and 28.6 of Chapter XIV	Penalties totalling Rs.58,523 recoverable from the officers who did not submit travelling claims with on 30 days after the completion of the journeys had not been recovered.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371(4)	Even though the Accounting Officer himself should not obtain ad hoc imprests for expenditure on inappropriate activities, 39 per cent or Rs.23,488 out of advances amounting to Rs.60,000 obtained in 03 instances had been settled without being utilized for the intended purpose.

- (ii) Financial Regulation 751 Even though all goods received should be recorded immediately in the stock book, test checks revealed that goods received valued at Rs.41,000 had not been recorded in the stock books.
- (d) Public Administration Circulars No. 41/90 of 10 October 1990/ Section 08 of Chapter XXVII of the Establishments Code of the Universities. Even though the fuel consumption of every motor vehicle should be properly tested by a competent Engineer once in every 06 months, such tests had not been so done in connection with 04 motor vehicles of the Institute..
- (e) Circular No. 1A1/2002/02 dated 28 November 2002 of the Secretary to the Treasury A separate register for the computers had not been maintained in terms of the Circular.
- (f) Public Finance Circular No. 446 of 01 September 2010. A sum of Rs.42,097 had been overpaid in the year under review due to the reimbursement of expenditure on telephones of the Director of the Postgraduate Institute of Agriculture exceeding the maximum limit applicable to him. The telephone expenditure of a Personal Assistant amounting to Rs.24,219 as well had been reimbursed without obtaining the approval of the Secretary to the Ministry.
- (g) Public Enterprises Circular No. 95(2) of 14 June 1994 and the Ministry of Finance Circular No. PE1/174/1-2003 of 29 January 2003 Even though fees, incentives and allowance cannot be paid without the approval of the Treasury, allowances for the co-ordination of short term courses and co-ordination allowance for the annual conference totalling Rs.120,000 had been paid in the year under review.
- (h) University Grants Commission Circulars No. UGC/HR/6/1/13(1) of 29 May 2003 and Circular No 837 of 29 December 2003. Lecture fees and the practical test fees for short term courses amounting to Rs.253,850 exceeding the approved limit had been paid contrary to the circular.
- (i) Public Administration Circular No. 13/2008(IV) of 29 February 2011. Even though the approved quantity of fuel per month for the Heads of Department or officers of equal status is 140 litres, payment contrary to the Circular had been made to the Director by treating 170 litres as the limit applicable to him. As such a sum of Rs.58,212 had been overpaid from January to December 2013.

- (j) No. IRD/PAYE/REG/01- dated 07 March 2011 of the Commissioner General of Inland Revenue – Tax Tables 07 and 01 on the amendments to the Inland Revenue Act in accordance with the Budget Proposals for the year 2011. Pay As You Earn Tax amounting to Rs.125,523 relating to 30 instances had not been recovered and remitted to the Commissioner General of Inland Revenue.

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Even though the Director General of the Department of Public Enterprises had, by his letter No. PF/1/174/11 dated 06 March 1996, informed the Chairman of the University Grants Commission that the second and third languages proficiency allowance and salary increments can be paid only to the officers in the public service, contrary to that language proficiency allowance totalling Rs.1,307,794 had been paid from the year 1996 to May 2013.
- (b) Contrary to the provisions in paragraph 02 of the Circular No. PED/58(2) dated 15 September 2011 of the Director General of Public Enterprises, the Secretaries of the Academic Committees of the Institute had been paid Rs.162,500 in the year under review in respect of the preceding year.
- (c) According to Chapter II of Part IX of the Establishments Code of the Universities, overtime or holiday pay can be paid only if the stock verification work is done outside the duty hours. Contrary to that honorariums totalling Rs.127,303 had been paid to 05 officers for the year 2012 and 06 officers for the year 2013.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus for the year ended 31 December 2013 amounted to Rs.34,250,532 as compared with the corresponding surplus of Rs.21,271,268 for the preceding year, thus indicating an increase of Rs.12,979,264 in the financial result for the year under review.

4. Operating Review

4.1 Management Inefficiencies

The Virginian University of the Netherlands had made available a sum of Rs.67,192,332 to the Institute for the implementation of the Crossing Boundaries Research Project and a sum of Rs.111,677 out of that remained without being spent. Action had not been taken even up to 31 March 2014, the date of audit to refund or settle the amount.

4.2 Underutilization of Funds

The following observations are made.

- (a) Three Research Fund balances totalling Rs.1,214,716 as at 31 December 2013 remained idle over periods ranging from 01 year to 04 years without being utilized.
- (b) Out of the sum of Rs.1,108,090 made available by the National Science Foundation in April 2013 for the Project on the Design and Development of a multi pass vibro fluidized-bed drier for tea and desiccated cocnut sum of Rs.840,822 or 76 per cent remained without being spent.

4.3 Idle and Underutilized Assets

A stock of 180 Course Handbooks printed at a cost of Rs.88,200 for the Postgraduate Courses of the years 2010/12 had been identified as non-selling stocks.

4.4 Lands not Acquired Formally

Even though the Postgraduate Institute of Agriculture had been established in the year 1975 action had not been taken even up to 31 March 2014 to effect the legal transfer of the land. Buildings valued at Rs.73,738,756 had been constructed as at 31 December 2013 on lands not transferred legally.

4.5 Personnel Administration

The following observations are made.

- (a) A Human Resources Budget had not been prepared in terms of Section 09 of the Public Enterprises Circular No. PED/12 of 02 June 2003.
- (b) Three Officers/ employees for 03 posts had been recruited in the year under review without the prior approval of the Department of Management Services of the General Treasury as specified in the Circular No. 26/2010 dated 31 December 2010 of the Secretary to the Ministry of Public Administration and Home Affairs and had paid a sum of Rs.677,431 as salaries.

5. Accountability and Good Governance

5.1 Corporate Plan

According to Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Corporate Plan for a period of not less than 03 years should be prepared and the updated plan approved by the Board of Management should be furnished to the Auditor General, the Treasury, the line Ministry and the Department of Public Enterprises at least 15 days prior to the commencement of each year. But it had not been so done. The approval of the Board of Management for the Corporate Plan for the year 2013 had been obtained only on 26 July 2013.

5.2 Action Plan

Even though an Action Plan had been prepared for the achievement of the objectives included in the Corporate Plan, the approval of the Board of Management for that had been obtained only on 22 March 2013. The Institute had not formulated a methodology for the timely review of the progress according to the Action Plan.

5.3 Internal Audit

The following observations are made.

- (a) According to paragraph 07 of the Management Audit Circular No. DMA/2009(1) dated 09 June 2009 on “Guidelines on Internal Audit”, the Internal Audit Programmes of the Institute should be prepared by paying special attention to the Financial Regulations 133 and 134. Nevertheless, Internal Audit Programmes covering all the Divisions had not been prepared while those programmes had not been developed annually to be in compliance with the changes in the Management and Financial processes in operation in the Institute.
- (b) According to paragraph 09 of the above circular, every Internal Audit Unit should prepare a quarterly Internal Audit Report for the Institute and submit that for discussions by the Management and Audit Committee and further submit an annual report. But those reports had not been furnished to the relevant Divisions.

5.4 Budgetary Control

The Annual Budget had not been made use of as an instrument for the achievement of the targets set for itself in the year ahead with a view to achieving the long term goals in terms of Section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 of the Director General of Public Enterprises.

6. Systems and Controls

Weaknesses in the systems and controls observed during the course of audit were brought to the notice of the Director from time to time through my reports. Special attention is needed in respect of the following areas of control.

- (a) Research and Grants
- (b) Accounting
- (c) Maintenance of Registers
- (d) Stock Control
- (e) Staff Loan Administration