

Post Graduate Institute of Agriculture - 2014

The audit of the Statement of Financial Positions as at 31 December 2014 and the financial statements of the Postgraduate Institute of Agriculture for the year ended 31 December 2014 comprising 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 Extraordinary Gazette No. 68/11 of 26 December 1979, 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

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 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 Sri Lanka Public Sector Accounting Standards

Action, in terms of Sri Lanka Public Sector Accounting Standards No. 01, and Section 92, had not been taken to revalue and account the assets of the cost of Rs.88,136,603 depreciated to zero value but being further used.

2.2.2 Accounting Deficiencies

Even though it was the policy of the Institute to write off the computer information system, worth Rs.2,800,000 accounted under office equipment, as amortization by accounting it as an intangible asset, action had not been taken accordingly.

2.2.3 Non-availability of Evidence for Audit

The evidence indicated against the following 04 items of accounts of the year under review totaling Rs.27,159,533 had not been presented to audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not made available</u>
Accrued Expenses	1,094,418	Schedules
Course Fees receivable	1,188,468	Schedules and Confirmation of Balances
Course Fees Received in Advance	24,114,499	-do-
Payment of Research Allowance for 05 Officers	<u>762,148</u>	approved Research Proposals
	<u>27,159,533</u>	

2.3 Accounts Receivable and Payable

Action had not been taken either to release or include in the income of the Institute a sum of Rs. 280,010 paid by the students as Science and library deposits during the period from 1974 – 2004.

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

The following non-compliances with laws and rules were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) The Statute of Post Graduate Institute of Agriculture ordinance No. 02 of 1974 (i) Paragraph 14	Even though the academic committees should consist of 09 members inclusive of the Director of the Institute, it was observed in the audit that the participation of members of academic committees was not satisfactory.
(ii) Sub –paragraph 14 (7)	Although at least 06 sessions of the Academic Board meetings should be held per year, 05 sessions each had been conducted during the year under review for the committee of Agricultural Economics and Committee of the Centre of Food Science and Technology.
(b) Employees’ Provident Fund Act, No. 15 of 1958, and the letter No. ඉ /අයනන/11 of Commissioner General of Labour, dated 24 August 2001.	As academic allowances are not defined as a cost of living allowance, this allowance should not be considered in the contribution for Employees’ Provident Fund, Pensions Fund and Employees’ Trust Fund. However, as action had been taken in contravention of the said requirement, contributions amounting to Rs. 61,940 had been overpaid to the aforesaid Funds on behalf of the academic staff of the Institute.
(c) Sections 28.5 and 28.6 of Chapter XIV of the Establishments Code of Democratic Socialist Republic of Sri Lanka.	An application for the travelling expenses should be furnished within 30 days after the conclusion of the travel. Late fee should be get levied for late applications in terms of Section 28.6. However according to the test checks, late fees amounting to Rs. 18,726 had not been get levied from late applications of travelling

expenses, forwarded at 10 instances.

(d) Chapter IX of Volume II, and Paragraph 4.1 of Chapter VII in Volume I of the Establishments Code of Universities

If Board of surveys, an activity extraneous to the normal duties, are conducted excluding working hours, only holiday pay or overtime can be paid. Contrary to those provisions, an allowance of stock survey totaling Rs. 79,090 had been paid to 06 officers of the Board of survey in the year 2013 for the stock survey conducted during working hours in the month of January of the year under review.

(e) Volume II of the Establishments Code of Universities

(i) (ii) and (iii) of 6.2 of Chapter VIII

Although ten per cent of the earnings generated through a service performed in addition to one's duty should be paid to the Higher Education Institute to which one belongs, a sum of Rs. 1,316,996 out of the sum of Rs. 13,169,959 paid as fees for visiting lecturers during the year under review of the Institute, had not been credited to the fund of the Institute.

(ii) 2.2 of 2 of Chapter IX

Payment of overtime should be made only for work specifically assigned, totally extraneous to the normal duties, urgent and not possible to perform within normal working hours. However, officers of the Institute had been paid a sum of Rs 2,094,403 as overtime payments during the year under review for performing the duties which were in the assignment of duties.

(f) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 371

Though ad hoc sub-Imprest grants should be adequate for the relevant purpose, advances in excess of Rs. 69,658 more than the amount required for the settlement of expenses had been granted in 11 instances.

(ii) Financial Regulation 371(2)

Although an ad hoc sub-imprest should be settled immediately after the completion of the purpose for which it was granted, advances

totaling Rs. 95,000 had been settled with a delay of 01 – 11 months.

- (g) Volume V of Public Finance Circular No. 446 dated 01 September 2010 Telephone expenditure amounting to Rs. 20,781 had been reimbursed to the Personal Secretary during the year under review without a proper approval of the Secretary to the Ministry.
- (h) Paragraph 09 of Public Enterprises Circular No. PED /12 dated 02 June 2003. A budget on human resources had not been prepared.
- (i) Sections 02, 03, 04, 05 and 06 of Treasury Circular No IAI/2002/02 dated 28 November 2002. Though a Fixed Assets Register for computer accessories and software should be maintained, such a Register had not been maintained with respect to computer accessories and software of a sum of Rs. 18,755,469.

2.5 Transactions not supported by Adequate Authority

The following observations are made.

- (a) A sum of Rs. 1,186,537 had been paid as allowances to 45 officers of the Post Graduate Institute of Agriculture without the approval of the Treasury from July to December of the year under review in terms of the University Grants Commission Circular No. 07/2014 dated 17 July 2014 prepared in accordance with the letter No. DMS/1528(A) of the Director General of the Department of Management Services dated 01 July 2014.
- (b) A lecturer had been paid an honorary allowance of Rs. 150,000 without a proper approval for preparation of the Corporate Plan for 2014 – 2017 years.
- (c) In making the payments for the staff of the University officiating at the Centers in the University in terms of the provisions in Paragraph 02 of the Department of Public Enterprises Circular No. 95 dated 14 June 1994 and the Ministry of Finance Circular No. PE 1/174 11-2003 dated 29 January 2003, a sum of Rs. 674,406 had been paid allowances for coordinating short-term courses, fees for lectures and for making payments as fees for Assistants during the year under review without obtaining the approval of the Cabinet and Treasury for making payments.

3. Financial Review

3.1 Financial Results

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.41,865,313 as compared with the corresponding surplus of Rs.34,250,533 for the preceding year, thus an improvement of

Rs.7,614,780 in the financial result for the year under review was observed. The improvement had mainly been as a result of the speed of increase in the internal earnings, and amortization on Government grants by Rs.24,311,860, and Rs.2,333,639 respectively than the increase of expenses by way of allocations made for personnel emoluments and salaries, other recurrent expenditures, and bad and doubtful debts of a sum of Rs. 7,350,852, Rs. 2,488,056, and Rs. 2,872,912 respectively.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) No action whatsoever had been taken up to the date of audit in connection with 437 unidentified books valued at Rs. 280,255 in the verification of library books in the year 1995, and 68 unidentified books in the verification of books at the library in Mahailuppallama in the year under review.
- (b) Action had not been taken to update the rates levied for the maintenance of Welfare Canteen at the Post Graduate Institute of Agriculture and charges for water and electricity changed timely.

4.2 Operating Inefficiencies

The Institute had been unable to enroll students for 07 courses in the year 2014.

4.3 Idle and Under-utilized Assets

Even though immovable assets and slow moving assets amounting to Rs. 391,249 and Rs. 36,218 respectively had been identified according to the stock verification report, no action whatsoever had been taken regarding the same up to the date of audit.

4.4 Identified Losses

The following observations are made.

- (a) Even if a van valued at Rs. 800,000 insured with comprehensive insurance policy had met with an accident, action had not been taken to recover the damages up to the date of audit, i.e. 20 February 2015.
- (b) Even though it was revealed at the stock verification survey conducted in the year under review that 346 library books valued at Rs. 358,456 had been misplaced, action had not been taken to recover the losses by identifying the parties responsible thereof.

4.5 Personnel Administration

Even though the approved number of cadre of the Institute is 18, only 06 employees in the grades of drivers and labourers had been employed. Twelve posts inclusive of 10 in the academic staff, had been remaining vacant over a long time, and action had not been taken to fill those vacancies even up to the date of audit.

5. Accountability and Good Governance

5.1 Corporate Plan

Although a Corporate Plan should be prepared for a period not less than 03 years, updated annually, approval from the Board of Management should be obtained for the same and it should be furnished to the Auditor General, the Treasury, the Line Ministry and to the Department of Public Enterprises at least 15 days prior to commencement of each new year in terms of Paragraph 5.1.3 of Public Enterprises Circular No. PED/12 of 02 June 2003, the approval from the Board of Management for the Corporate Plan for the year under review, had been obtained on 31 January 2015.

5.2 Action Plan

Even though an annual Action Plan had been prepared in order to achieve the objectives included in the Corporate Plan, the Institute had not devised a methodology to look into the progress timely in achieving the objectives in the Action Plan.

5.3 Internal Audit

An Internal Audit Unit had not been established at the Institute. Instead, the internal audits had been carried out by the Internal Audit Unit of the University of Peradeniya. The following weaknesses were observed therein.

- (a) Quarterly Reports and Annual Reports that should be prepared in terms of the Secretary to the Ministry of Finance's Audit and Management Circular No. DMA /2009 (1) dated 09 June 2009 had not been prepared during the prescribed period.
- (b) An internal audit programme had been prepared for the year under review. All the divisions that should have been checked during the year, had not been checked and only 02 Internal audit reports on the investigations carried out, had been presented.

5.4 Audit Committees

The audit committee had not presented its observations to the Board of Directors In terms of the Section 7.4.1 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003 and the following matters related to the audit committee had been deemed out of scope.

- (a) Definition of the responsibilities of the Internal Audit Unit and review of the annual audit plan.
- (b) Review and evaluation of internal control system relevant to all activities implemented in the Institute.
- (c) Reports containing the observations to be included in the Annual Report.
- (d) Review on the proposals / guidelines presented to the Committee of Public Enterprises.
- (e) A review and actions impending on the management letters and on the internal / external audit reports.

5.5 Procurement Plan

Even though a main Procurement Plan had been prepared for the year under review in terms of the provisions of the Government Procurement Guidelines, activities of procurement expected for the minimum period of 03 years had not been included therein.

5.6 Budgetary Control

As the Annual Budget had not been made use as an instrument for the achievement of the targets set in the year in terms of 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the following matters were observed.

- (a) When budgeted and actual expenses are compared, an under- provision had been made for expenses totaling Rs. 3,041,000 relating to 07 Objects, whereas an over-provision had been made for expenses totaling Rs. 11,385,000 relating to 31 Objects.
- (b) When budgeted and actual income are compared, an income of Rs. 24,622,000 relating to 13 items of income had been under-assessed.

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. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Utilization of Research Grants
- (c) Financial Management
- (d) Employee Management
- (e) Procurement
- (f) Library Administration
- (g) Conducting / Management of Courses