

Postgraduate Institute of Management affiliated to the University of Sri Jayawardenapura - 2014

The audit of financial statement of the Postgraduate Institute of Management affiliated to the University of Sri Jayawardenapura for the year ended 31 December 2014 comprising the financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flows for the year then ended and a summary of significant accountings 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 sub Section 107(5) and Section 108 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 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 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 judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessment the auditor considers internal control relevant to the Institute's preparation and fair presentation of 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. In terms of the Section III of the Universities Act No.16 of 1978 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 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 Management 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

According to the Sri Lanka Public Sector Accounting Standards 07, the entire class of assets should be revalued when assets are revaluated. Nevertheless, assets valued at Rs.9,427,448 in respect of 04 class of revalued assets had not been revalued.

2.2.2 Accounting Policies

Even though, determination of the useful life of the assets valued by the Department of Valuation had been carried out by a separate committee, it was not satisfied in audit on the propriety of useful life estimates as the committee did not consist of a person who had an expertised knowledge on the subject.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Cost of non-current assets, cumulative depreciation, depreciation for the year and the revaluation surplus shown in the financial statements had been understated by Rs.2,904,701, Rs.2,641,326, Rs.5,240 and Rs.383,618 respectively due to the adjustments had not been made by accurately identifying the revalued cost of assets, cumulative depreciation, according to the computations made in audit. As a result, the income of the year had been overstated by Rs.5,240 and the non-current assets had been understated by Rs.263,375.

(b) Even though, according to the interest rates stated in certificates of fixed deposits and notification of renewals, the interest income on investments in the year under review amounted to Rs.16,308,282 and interest receivable amounted to Rs.5,322,362, the income of the year and the interest income receivable had been understated by Rs.270,937 due to the interest income as Rs.5,051,425 and the interest receivable as Rs.16,037,345 shown in the financial statements.

- (c) The Investment Account had been debited instead of debiting the Interest Income Account when the rectification of the interest income amounting to Rs.362,918, which had been over computed and accounted by the Institute.

2.3 Transactions Not Supported by Adequate Authority

The following matters were observed.

- (a) Twelve training courses had been held in the year 2014 by awarding certificates with the official seal of the institution by using physical and human resources of the institute out of them 8 had been completed during the year. A sum of Rs.7,491,476 out of the net surplus of the 8 courses amounting to Rs.8,789,675 had been distributed among the staff by erroneously , interpreting the Public Finance Circular No.380 dated 19 January 2000, issued for spending money received from consultancy services .
- (b) A sum totaling of Rs.350,000 had been granted by the institute as donations to the University of Sri Jayewardenapura without the approval of the Treasury.

2.4 Accounts Receivable and Payable

The following matters were observed.

- (a) An international branch had been commenced by the institute in the year 2007 and that branch had been closed in September 2009 due to a fraud occurred. Nevertheless, sums of Rs.2,911,912 and Rs.11,603,217 had been continuously brought forwarded as receivable and payable balances respectively for a long period without being investigated.
- (b) The Senate had decided to recover the value of bond amounting to Rs.4,312,500 by 48 instalments at Rs.89,843 per each instalment recoverable from a Lecturer who had left the service and violated the agreements. Accordingly ,the institute had not taken action to take legal action for the recovery of the amount of Rs.3,886,484, further receivable as at 31 December 2014.

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

The following non- compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulation etc.

- (a) Section (8) (o) of the Postgraduate Institute of Management Ordinance No.03 of 1985.

Non-compliance

Even though the approval of the Board of Management should be obtained for the investment of the money of the Institute, the institute had made investments of Rs.50

million without such approval.

(b) Section 5.1 of Chapter ix of the Establishments Code for the University Grants Commission and Higher Educational Institutions.

A sum of Rs.932,250 had been paid as the co-ordination allowances for the year 2014 in addition to the normal salaries and allowances to two staff officers who were not entitled for overtime payment who drew monthly basic salaries of Rs.42,835 and Rs.46,720 respectively. The approval of the Treasury had not been obtained thereon. Despite, the Director of Establishment had informed in writing the Auditor General that the above payment would be suspended in the Year of Account 2013, action had not been taken accordingly.

(c) University Grants Commission Circular No.4/2013 dated 10 April 2013.

Two disposal of assets had been done by the institution and the lists of goods proposed to be disposed had not been furnished to the Auditor General. Eighty nine items of office equipment and furniture valued by the Department of Valuation at Rs.628,250 and 20 other items at Rs.66,805 and 153 items of assets assessed at Rs.669,000 on 21 February 2015 at Rs.36,410 had been sold to the employees of the institute without getting the approval of the Board of Management within few days of the valuation. It was not explained to audit that the reason for assets sold to staff such a low prices by which the Department of Valuation had given very high valuation. 112 items out of 153 items of assets disposed had been purchased by a female officer and paid Rs.7,110, the assessment value of which was Rs. 420,750.

3. Financial Review

3.1 Financial Results

According to the financial statement presented, the operation of the institute for the year under review had resulted in a surplus of Rs.48,834,179 as compared with the surplus of Rs.40,784,288 in the preceding year. Accordingly, the growth in the financial results in the year under review amounted to Rs. 8,049,891. Increase in assets revaluation surplus by Rs.10,661,270 had been the main reason for the growth.

3.2 Legal Cases Initiated against or by the Institute.

Investigations based on the recommendations made by the report of the Committee On Public Enterprises held in the year 2009 in respect of the fraud of Rs.58.2 million at the Dubai Branch of the Postgraduate Institute of Management had been handed over to the Criminal Investigation Department on 29 March 2011. Nevertheless, any report had not been received from the Criminal Investigations Department to the Institute and any active contribution had not been given by the Institute for the acceleration of the investigations.

4. Operating Review

4.1 Management Inefficiencies

The following matters were observed.

- (a) An advance of Rs.820,000 had been given for the expenditure of the repast of the convocation on 15 December 2014 to an outside person by the institute without entering into an agreement and obtaining a bond. This advance had not been settled even by 30 May 2015, the date of audit.
- (b) A schedule including the items with the cost at the date proposed to value each class of 4 type of assets revalued had not been handed over to the valuers and only the items presented physically had been revalued. As such, it could not be ensured in audit whether all the items related to the class of assets had been revalued and all assets accounted at the revaluation date had existed actually at the revaluation date. Accordingly, it was observed that the above revaluation had not been carried out accurately.

4.2 Personnel Administration

The following matters were observed.

- (a) The approved cadre of the institute consisted of 50, out of which 33 had been vacant even as at the end of the year of accounts. No action had been taken by the institute to fill the vacancies and 2 officers had been recruited on contract basis for covering up duties of the permanent posts.
- (b) Posts which were not included in the approved cadre in the Human Resources Plan, had been created and the approval of the Board of Directors had not been obtained thereon. 8 officers had been recruited on contract basis without the approval of the Ministry of Higher Education for covering up duties of these posts.

The approval of the Secretary to the Treasury had not been obtained in terms of Section 9.7 and 9.10 of the Circular No.PED 12 dated 02 June 2003 to recruit those officers and to determine their salaries and allowances.

5. **Accountability and Good Governance**

Audit Management Committees

Even though in terms of the Public Enterprises Circular No.12 of 2 June 2003, at least 4 Audit and Management Committee meetings should be held within a year, the meetings of Audit and Management Committee for the year 2014 had not been held even as at 15 June 2015.

6. **Systems and Controls**

Deficiencies in systems and control observed during the course of audit were brought to the notice of the Director of the Postgraduate Institute of Management from time to time. Special attention is needed in respect of the following areas of control

- (a) Fixed Asset Control
- (b) Stock Control
- (c) Personnel Management