

Institute of Human Resource Advancement - 2015

The audit of financial statements of the Institute of Human Resource Advancement affiliated to the University of Colombo for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 and 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 23 of the Institute of Human Resource Advancement Ordinance, No. 11 of 1979 and Sub-section 108(1) of the Universities Act enacted under Sub-section 107 (5) and Section 18 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 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 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 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 the 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 Institute of Human Resource Advancement affiliated to the University of Colombo 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard – 01

Even though the assets used by the Institute should be disclosed in the financial statements, action had not been taken to revalue and account the value of the land with an extent of 27.86 perches transferred by the University of Colombo.

(b) Sri Lanka Public Sector Accounting Standard – 07

Even though the depreciable amount of an asset shall be allocated on a systematic basis over its useful life, depreciation had been computed on the old rates of depreciation without estimating the useful life of assets revalued at Rs. 3,000,000 without re-estimating the effective useful life of revalued assets.

2.2.2 Accounting Principles

The Accounting Policy in accounting the income and expenditure of the courses and Deferred Income in the courses in which the duration of the course exceeds an accounting year, had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) Out of the income of the Certificate Course in Spoken English, a sum of Rs. 4,394,087 had been transferred to various Funds and as such, the income for the year under review had been understated by that amount.

(b) Even though the appropriation of profit of Rs. 11,831.762 shown in the Statement of Changes in Equity should be credited to the Institutional Development Fund, it had been brought to account as a deferred income.

- (c) Deposits of Rs. 4,096,475 unidentified for a long time in the bank account maintained for the short term courses in the institute had been brought to account as accrued expenses in the year under review without identifying the source of income.
- (d) A total of Rs. 52,841,001 including the income for the year under review had been credited to a Deferred Income Account without identifying income and expenditure of the courses as income of each period based on the age basis with a course duration exceeding an accounting year. The income of Rs.3,729,821 relating to 12 courses completed in the year 2014 and the income amounting to Rs. 20,387,455 relevant to 18 courses completed in the year under review had been brought to account under Deferred Income without accounting to the accumulated income and accounting as an income of the year under review respectively..
- (e) Expenditure of Rs.348,513 incurred for interim courses had been brought to account as accrued expenses instead of posting between those accounts.
- (f) Even though amortization should be computed based on annual depreciation by identifying the source from which funds had been received for the assets in the computation of amortization, amortization had been computed only for the assets purchased after the year 2011.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 371	<ul style="list-style-type: none"> (i) Advances totalling Rs.4,557,244 had been granted to 06 Officers of Non- Staff Grade in 62 instances in the year under review. (ii) Even though advances obtained should be settled immediately after the completion of the purpose, advances totalling Rs.3,941,315 obtained in the year under review in 35 instances had not been settled even after a delay ranging from 30 days to 275 days. (iii) Even though another advance should not be granted until the advance previously obtained is settled, advances had been granted again in 12 instances to three officers who had not

- settled the advances, already taken.
- (ii) Financial Regulation 756
A Board of Survey had not been conducted for the year under review.
- (b) Public Finance Circular No. 03/2015 of 14 July 2015
Even though the maximum amount of advance that can be granted at a time is Rs.100,000, advances totalling Rs.26,211,702 had been granted ranging from Rs.105,000 to Rs.842,265 by the Institute in 52 instances.
- (c) Public Enterprises Circular No. PED/25 of 29 July 2004.
Even though the approval of the General Treasury should be obtained for the investments of Public Enterprises such approval had not been obtained by the Institute for the investments amounting to Rs.69,500,000.
- (d) Treasury Circular No. 842 of 19 December 1978 and the University Grants Commission Circular No. 49 of 13 November 1979.
A Register of Fixed Assets had not been maintained in terms of the Circular.
- (e) Sections 3.1 and 3.2 of Chapter XX of the Universities Establishments Code
Even though all academic and non- academic officers should record the time of arrival and departure, payments of Rs. 7,903,304 had been made to 05 academic officers as salaries and allowances without confirming their arrival.
- (f) Circular No.2004/අස/01 of 26 January 2004 of the National Library and Documentation Services Board
A survey on library books had not been conducted for the year under review.

2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Out of the income from the courses of the Institute, a total sum of Rs. 6,195,480 had been paid as allowances to 24 employees of the Institute in the year under review without a proper approval.
- (b) Allowances totalling Rs. 2,589,272 had been paid in the year under review to 12 lecturers of the academic staff of the Institute without an approval of the Ministry of Finance, extraneous to the salaries and allowances approved by the University Grants Commission.
- (c) Allowances of Rs. 689,750 had been paid without a proper approval in the year under review for the employees who participated in the duties of examinations held during normal working hours relating to 03 courses conducted by the Institute.

- (d) Transport allowances totalling Rs. 1,064,250 had been paid in the year under review to 06 staff officers who were not entitled to transport facilities by the Circulars of the University Grants Commission.

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 2015 had been a surplus of Rs.24,437,356 as compared with the corresponding surplus of Rs. 11,340,232 for the preceding year. The increase in the income of short term courses by Rs.13,097,124 in the year under review had mainly attributed to the improvement of the financial result as compared with the preceding year.

In analyzing the financial results of the year under review and 04 preceding years, the surplus of the Institute had improved continuously from the year 2011 up to the year 2013. Even though a slight decrease had been shown in the year 2014, it had improved again by 115 per cent in the year 2015. The contribution of the Institute for the years 2014 and 2015 had been shown as Rs. 47,458,572 and Rs. 68,533,045 respectively after paying employees' remuneration and making adjustments for depreciation of non-current assets and the increase in the contribution in the year under review was 44 per cent as compared with the preceding year.

3.2 Analytical Financial Review

According to the statement of financial position presented, the current ratio and the quick ratio in the year under review were 13.2:1 and 13:1 respectively and cash and cash equivalents at 72.6 per cent is represented in the current assets. Maintaining cash balances of Rs. 72,204,336 in the year under review had resulted in the increase of liquidity ratios.

4. Operating Review

4.1 Management Activities

Even though the approval should be obtained from the University of Colombo and the University Grants Commission for the commencement of a new course in accordance with Sections (a) and (b) of paragraph 06 of the Ordinance of the Institute, a one year Diploma Course named as "Transportation & Logistics Management" had been commenced and two batches of students had been enrolled without such an approval. Releasing the results of the first batch of students had been delayed and the money obtained from the second batch of students had been repaid due to failure in obtaining the approval of the University for this Course. As such, the expenditure on publicity and interviews amounting to Rs. 202,250 incurred by the Institute had been a fruitless expenditure due to actions taken superseding the Ordinance

4.2 Operating Inefficiencies

The following observations are made.

- (a) A sum of Rs. 1,108,450 from the income of other Courses had been spent in the year under review for using a hotel, without using the lecture halls of the Institute for presentations relating to two subjects of the Course despite the unavailability of provisions for the Labour Education Bachelor's Degree Course.
- (b) A high coordinating allowance up to Rs. 80,000 had been paid to the coordinators of the Courses implemented by the Institute and the same lecturer had obtained coordinating allowances for several courses, by obtaining separate coordinating allowances for each batch of students. As such, out of the total coordinating allowances amounting to Rs. 3,500,000 incurred in the year under review, allowances of Rs. 3,000,000 had been obtained by two lecturers.
- (c) The opportunity had been provided for 25 students who had failed to pay the complete course fees up to the final semester of the "MSc in Disaster Analysis & Management Mitigation No.01" Course comprising three semesters, to sit for the last semester examination without charging a total sum of Rs. 1,325,000 and for 30 registered students of 04 one year certificate courses to sit for the failed examinations as well without charging a total sum of Rs. 525,000. Even though a period of over one year had lapsed after conducting the final semester examination, the Institute had not taken any action whatsoever to recover the outstanding course fees.
- (d) Even though a sum of Rs. 2,670,013 had been spent for the publication of newspaper advertisements for the advancement of courses in the year under review, advertisements had been made to publish through an agent without being connected with the main newspaper publishing institutions.
- (e) Even though a period from 01 year to 10 years had lapsed after externally borrowing 65 books valued at Rs. 40,816 by 14 persons of the academic and non-academic staff, they had not been returned. It was observed that out of these 65 books, 28 books alone had been borrowed by one lecturer and the Institute had not taken a follow up action in respect of those books.
- (f) Even though a sum of Rs. 155,771 had been paid to 9 institutions of service contracts in the year under review for service of printers and photocopying machines used in the Institute, no evidence whatsoever had been made available to audit that services had been obtained during the year.
- (g) It was observed in audit test check that advances totalling Rs. 689,500 had been granted in 12 instances for the expenditure of Rs. 180,399 during the year under review without properly forecasted estimates of expenditure.

4.3 Underutilization of Funds

As it was observed that a considerable amount of a cash balance is continuously maintained in the Institute during the year under review, that money had remained underutilized without using for fulfilling the objectives of the Institute.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) A sum of Rs. 10,000,000 had been received as capital grants from the Treasury in the year under review. As the capital grants spent amounted to Rs. 1,516,035, capital grants of Rs. 8,483,965 received for the year had been saved. The accumulated balance of the unspent Capital Grants Account as at 31 December of the year under review amounted to Rs. 24,152,861 and as such, it was observed as well that continuous fulfilment of objectives was not possible without utilizing public funds effectively.
- (b) A section of the stores had been abandoned as a leakage of water into the stores existed due to the decay in the stores roof from a long time. Even though a considerable amount of damage had been caused to the stores by termites, no steps whatsoever had been taken to repair it.

4.5 Identified Losses

Provident funds had not been paid to an officer who served on contract basis in terms of the Employees' Provident Fund Act. As the employee's contribution of Rs 243,199 had not been paid on the due dates according to the order of the Commissioner of Labour, a total sum of Rs. 607,996 had to be paid including a surcharge of Rs. 364,797 as well.

5. Systems and Controls

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

Areas of Systems and Control	Observations
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(a) Contract Administration	Purchasing not made according to the Procurement Plan.
(b) Fixed Assets Control	Non preparation of a proper Register of Fixed Assets, Non revaluation of assets
(c) Stock Control	Failure in conducting a Board of Survey
(d) Financial Control	(i) Granting of advances exceeding the limit
	(ii) Non adherence to the limit of petty cash, issuing receipt books to the cashier without control, investing of money without the approval of the Treasury and granting the income from courses to the employees without approval.