

Postgraduate Institute of Management – 2015

The audit of financial statements of the Postgraduate Institute of Management Affiliated to the University of Sri Jayawardhanapura 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 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 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 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 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 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 Management 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 non-compliances are observed.

(a) Sri Lanka Public Sector Accounting Standard 01

In the classification of expenditure, the expenditure had been classified according to the activity instead of recognizing the expenditure according to its nature. Nevertheless, the additional information on the nature of the expenditure had not been disclosed.

(b) Sri Lanka Public Sector Accounting Standard 02

The computation of the change in the working capital in the cash flow statement had not been done according to the data of the financial statements. As such the decrease in the stock had been understated by a sum of Rs.171,905 , the decrease in the accrued expenditure had been overstated by a sum of Rs.80,239 and the decrease of other liabilities had been overstated by a sum of Rs.984,145 in the cash flow statement.

(c) Sri Lanka Public Sector Accounting Standard 03

The adjustment of Rs.1,441,955 made in the year under review for the rectification of the errors in the computation of depreciation in the preceding years had not been restated with retrospective effect in order to enable the users of the accounts to understand the material impact caused therefrom to the comparative figures.

(d) Sri Lanka Public Sector Accounting Standard 07

- (i) Even though adequate disclosure should be made when fixed assets are stated at the revaluation amount, such adequate disclosure had not been made in the Notes to the Accounts for the year under review in connection with the property, plant and equipment, furniture, office equipment and the laboratory and teaching equipment revalued on 01 April 2014.
- (ii) Even though the buildings costing Rs.60,610,211 acquired in the year 1995 should have been fully depreciated in accordance with the depreciation policy of the Institute, a further net balance of Rs.3,327,695 had been shown due to the errors in the computation of depreciation. Nevertheless, attention had not been paid for the revision of the rate of depreciation as the asset remained in the usable condition.
- (iii) In view of the failure to review the useful life of non-current assets annually, buildings and motor vehicles costing Rs.66,258,768 , though fully depreciated, remained in further use. As such, the error made in the estimation of the rates of depreciation, has not been revised in terms of the Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following deficiencies are made.

- (a) The value of library books and periodicals received by Institute as aid had not been brought to account whilst the value of the library books and periodicals removed from use had not been adjusted.
- (b) The depreciation on motor vehicles for the year under review had been understated by a sum of Rs.313,742 due to the errors in computation.
- (c) The interest income receivable for two fixed deposits as at 31 December of the year under review had been understated by a sum of Rs.168,031.

2.2.3 Lack of Evidence for Audit

According to the Register of Assets prepared by the Institute, a motor vehicle costing Rs.2,600,000 had been shown as physically available. But the physical availability of such motor vehicles was not confirmed in Audit.

2.3 Accounts Receivables and Payables

The following observations are made.

- (a) Even though the Institution had established an International Branch in Dubai in the year 2007, that Branch had been closed down in September 2009 due to a fraud. The balances receivable from and payable by that Branch amounting to Rs.1,641,000 and Rs.7,860,000 respectively remained over a long period. In this connection, the Director of the Institute informed the Audit that the Criminal Investigation Department was conducting an investigation in this connection.
- (b) Action had not been taken even up to the end of the year under review for the recovery of the money relating to a cheque for Rs.52,500 received in October 2014 from a State Bank for a Management Course but not realized.

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

Non-compliance with the following laws, rules, regulations and Management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
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(a) Establishments Code for the University Grants Commission and Institutes of Higher Education	

(i) Section 5.1(a) of Chapter IX and Sections 21.1 and 21.3 of Chapter VII	Even though it is stated that the officers of the Administrative Grades and the Grades similar to that are not entitled to receive overtime and that in the computation of allowance for working on holidays, the consolidated salary for one day should be considered only incase of working for more than 7 hours per day. Contrary to that, the Senior Assistant Registrar and the Systems Analyst Officer Grade I had been paid holiday pay and overtime amounting to Rs.1,252,800 during the year under review.
(ii) Section 2.1 of Chapter XXVI	A survey of the Library Books for the year under review had not been conducted.

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| (iii) | Sections 4 and 5 of Chapter II and Financial Regulations 770 and 772 | Office Equipment valued at Rs.728,250 had been sold to the employees for Rs.30,625 without following the recommendations of the Board of Survey and without following the other courses of action relating to the transparency of the transaction. |
| (b) | Treasury Circular No. IAI/2002/02 of 28 November 2002 | A Register of Fixed Assets for Computers and Computer Accessories had not been maintained. |

2.5 Transactions not supported by Adequate Authority

Ten Management Development Courses had been conducted in the year 2015 by using the physical and human resources of the Institute and awarding the certificates with the official seal of the Institute. The net surplus of 7 Programmes completed during the year under review amounting to Rs.5,873,341 had been considered as for the supply of consultancy services in terms of the Public Finance Circular No. 380 of 19 January 2000 and distribute among the staff.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the results of the operations of the Postgraduate Institute for the year ended 31 December 2015 amounted to a surplus of Rs.40,054,887 as compared with the corresponding surplus of Rs.38,172,909 for the preceding year, thus indicating an improvement of Rs.1,881,978 in the year under review as compared with the preceding year. Even though the overall expenditure of the year under review as compared with the preceding year had increased by a sum of Rs.26,959,049, the increase of Rs.30,239,718 in the postgraduate course fees and the registration fees had been the main reason for the above increase.

An analysis of the financial results for the year under review and the 4 preceding years indicated that despite the deficit in the financial result for the year 2011, there were continuous surpluses thereafter. The contribution of the Institute for the year 2011 amounting to Rs.33,013,010 after making adjustments for the depreciation on the non-current assets, the employees' remuneration and the taxes paid to the Government, had increased to Rs.117,144,037 by the end of the year under review and that represented an increase of 17 per cent as compared with the preceding year.

3.2 Legal Action Instituted Against or by the Institute

The following observations are made.

- (a) The Institute had been named as an intermediary respondent in connection with the Case No. LT/01/05/2012 filed in the Labour Tribunal by the former Deputy Bursar of the Postgraduate Institute of Management against the University Grants Commission and the University of Sri Jayawardhanapura.
- (b) Even though the fraud of Rs.58.2 million of the Dubai Branch of the Postgraduate Institute of Management had been assigned to the Criminal Investigation Department for investigation on 29 March 2011 based on the recommendation of Report of the Committee on Public Enterprises made in the year 2009, the investigation had not been finalised even by the end of the year under review.

4. Operating Review

4.1 Performances

The following observations are made.

- (a) A sum of Rs.165,099,814 had been spent as recurrent expenditure on 427 students who were studying in the Postgraduate Institute of Management during the year under review as compared with the expenditure of Rs.138,290,583 incurred for 279 students in the preceding year. The cost per student as compared with the preceding year had decreased by Rs.109,015 or 22 per cent.
- (b) Out of the students registered for the Master of Business Administration Course 17 per cent to 23 per cent had not completed the Degree.
- (c) Even though 43 students had registered for the Doctor of Philosophy Degree from the year 2012 up to the year under review, only one person had completed the Degree.

4.2 Management Activities

The following observations are made.

- (a) According to the Decision No. 241.4 dated 31 August 2015 of the Board of Directors permitted obtaining fuel allowances only for the days on which work had been done for more than 08 hours. It was observed that fuel allowance amounting to Rs.251,100 had been overpaid during the year due to inclusion of days with less than 08 hours per day for the computation of the fuel allowance.

- (b) According to a service agreement entered into between the Postgraduate Institute of Management and a Guest Lecturer, the payment for the service rendered by the Lecturer had been Rs.2,500 per hour. Nevertheless, an overpayment of Rs.71,000 had been made for 35 ½ hours from July to December 2015 at the rate of Rs.4,500 per hour.
- (c) Despite the availability of a permanent Lecturer drawing a monthly salary of Rs.88,000 for the Information Management subject of Master of Business Administration Degree Course of the Postgraduate Institute of Management, a sum of Rs.364,500 had been paid for five Visiting Lecturers from October to December of the year under review. The Permanent Lecturer had delivered 09 lecturer hours only during that period whilst in Visiting Lecturers had delivered 81 lecturer hours.

4.3 Staff Administration

The following observations are made.

- (a) According to the approved Human Resources Plan of the Institute, the approved staff should comprise 48. Nevertheless, there were vacancies in 09 posts in the Academic Staff and 12 posts in the Non-academic staff as at the date of audit. Instead of filling the vacant posts, 9 officers had been deployed on contract basis for the approved staff.
- (b) In addition to the approved staff in the Human Resources Plan, two persons had been recruited to the post of Computer Input Assistant and the post of Driver whilst 12 persons had been recruited for 5 posts not included in the approved Plan without formal approval.

4.4 Procurement Process

The following observations are made.

- (a) Even though a sum of Rs.130 million had been included in the Procurement Plan for the year under review as the anticipated expenditure on the construction of a building for the Institute, the Procurement Process had not been commenced even by the end of the year under review.
- (b) Even though 3 quotations should be invited in terms of Guideline 3.4 of the Procurement Guidelines for the selection of a supplier for landscaping, the contract had been awarded for Rs.432,000 to the same supplier who was supplying that service from the year 2011 and in the evaluation of the quotations, the photocopies of the other two quotations had been submitted to the Technical Evaluation Committee.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to the circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General for audit within 60 days after the close of the year of accounts. Nevertheless, the draft accounts had been presented to Audit only on 18 March 2016, whilst the amended accounts had been presented to Audit only on 24 October 2016.

5.2 Internal Audit

Even though five items to be covered from the Internal Audit Plan for the year under review had been indicated, only 2 internal audit activities had been completed during the year. Nevertheless, the Management had not paid adequate attention to the reports issued in connection with the relevant internal audit activities.

5.3 Audit Committee

The Audit Committee had held 3 meetings during the year under review and 2 meetings had been held in the year 2016.

5.4 Budgetary Control

Comparison of the budgeted expenditure and the actual expenditure of the year under review revealed variances ranging from 23 per cent to 78 per cent, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. 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 Controls

Observations

(a) Fixed Assets Management

(i) Deficiencies in the revaluation of assets, disposal and accounting thereof and non-updating of Register of Fixed Assets.

(ii) Absence of inter-connectivity between the software for recording of receipt and issue of fixed assets and the software for accounting of transaction.

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| (b) Accounting | (i) Failure to prepare accounts according to the Sri Lanka Public Sector Accounting Standards. |
| | (ii) Weaknesses in the computation, recovery and accounting for receivable. |
| (c) Management of Self-financing courses | Providing benefits to the staff by utilizing the resources of the Institute. |
| (d) Procurement | Failure to take action in terms of the Procurement Guidelines, the Procurement Manual and the Procurement Plan. |
| (e) Internal Control | Computer Input Assistant deployed for the post of Bookkeeper and the execution of all duties from the preparation of vouchers to the shroff without resorting to the distribution of work. |