

Postgraduate Institute of Science – 2015

The audit of financial statements of the Postgraduate Institute of Science 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 21 of the Postgraduate Institute of Science Ordinance No. 01 of 1996 published in the Gazette Extraordinary No.909/13 of 09 February 1996 and Sub-section 107(5) 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 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. Section 111 of the Universities Act, No.16 of 1978 gives 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 Science 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 revenue should be recognized under accrual basis, in the registration of students for the year 2015, the fees relevant to the courses had not been brought to account as revenue in the year. As such, the revenue in the year under review had been understated by Rs.1,795,650.

(b) Sri Lanka Public Sector Accounting Standard 02

Gratuity payments amounting to Rs.337,750 had not been shown in the cash flow statement and the provisions for visiting lecture fees amounted to Rs.5,111,375 in the year under review. However, it had been adjusted as Rs.2,020,320 under transactions which were not cash flows in the cash flow statement. As such, the balancing of the cash flow statement had been problematic in audit.

(c) Sri Lanka Public Sector Accounting Standard 03

Retrospective adjustments had not been made in respect of a sum of Rs.903,030 paid in the year under review for supplying food for short term courses and workshops in the preceding year and awarding scholarships and payment of coordinating allowances of Rs.855,470 in the year under review to two officers of the academic staff for the years 2012, 2013 and 2014 relating to the Asian Disaster Preparedness Centre Project.

2.2.2 Accounting Deficiencies

Electricity charges and building rent amounting to Rs.179,893 payable as at the end of the year under review to the University of Peradeniya and a sum of Rs.72,999 receivable from the University for foreign supplies had not been brought to account.

2.2.3 Lack of Evidence for Audit

The evidence indicated against 03 items of account totalling Rs.29,430,750 had not been made available to audit.

	Item	Value	Evidence not made available
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		Rs.	
(a)	Scholarship money given to 14 students who had studied for the Master of Science in Disaster Management in the year 2013	875,000	Written acknowledgements on receipt of bursary
(b)	Chemicals and research equipment purchased for research projects	10,453,888	Stock books
(c)	Researches completed during the period from 2010 to 2015	18,101,862	Methodologies to be used for the betterment of relevant fields.
	Total	<u>29,430,750</u> =====	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to settle the library and laboratory deposits amounting to Rs.2,448,050 repayable to the students relating to the period from the year 2009 up to the year 2012 or to credit them to the Fund of the Institute as income.
- (b) Action had not been taken to settle a sum of Rs.755,122 payable to 06 Boards of Studies relating to the years 2013 and 2014.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations

Non-compliance

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| (a) Postgraduate Institute of Science
Ordinance No.01 of 1996 | |
| (i) Section 10(6) | Even though the approval of the Ministry of Finance should be obtained for the payment of allowances to the members of the Board of Management, payments amounting to Rs.204,100 had been made in the year under review without obtaining such approval. |
| (ii) Sections 11.2 (h) and (i) | Even though by laws should be formulated for the conduct of affairs of the Institute, those subsidiary legislations had not been formulated even up to 15 March 2016. |
| (iii) Section 17(2) | The monthly reports in respect of crediting all receipts of money to the Fund of the Institute should be presented to the University Grants Commission before the end of the following month. Nevertheless, it had not been so done. |
| (b) Section 47 of Chapter VI of the Employees' Provident Fund Act No.15 of 1958 and Section 02 of the University Grants Commission Circular No. 955 of 28 April 2011 | The academic allowance should not be taken in to account in the computation of the contributions to the Employees Provident Fund, Employees Trust Fund and the Gratuity. Nevertheless, the academic allowance had been included in the computation and as such, contributions totalling Rs.365,924 had been overpaid for the academic staff of the Institute for the above funds. |
| (c) Sub-sections (ii) and (iii) of Section 6.2 of Chapter VIII of Part II of the Establishments Code for the University Grants Commission and Institutes of Higher Education | In addition to one's duty, out of the monies earned from other services, 10 per cent should be credited to the University Fund. However, a sum of Rs.868,886 out of Rs.8,688,860 relating to visiting lecture fees and a sum of Rs.170,474 out of Rs.1,704,740 relating to coordination fees had been paid by the Institute in the year under review and action had not been taken to make abatements and credit to the University Fund in making payments. |

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| (d) Circular Letter No.06/2014 of 26 March 2014 of the Chairman of the University Grants Commission | Entertainment allowances totalling Rs.146,706 had been paid from July 2014 up to December 2015 to two senior officers of the Institute, who were not entitled to entertainment allowance. |
| (e) Management Services Circular No.02/2014 of 11 February 2014 | Despite the officers who were entitled to the research allowance had not submitted reports on the progress of the research proposal to the Research Management Committee, research allowances totalling Rs. 902,497 had been paid to 04 officers during the year under review. |

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Research expenses amounting to Rs.2,172,246 had been incurred exceeding the limit of provisions received for 09 various research projects without obtaining the approval of the Board of Control.
- (b) Even though payments should be made on an amount decided by the Governing Authority of the University in respect of visiting lecture fees paid for an hour of Postgraduate Courses and for an hour of practical tests subjected to a minimum of Rs.1,000 in terms of Section 02 of the Circular No.01/2015 of 22 January 2015 of the Chairman of the University Grants Commission, contrary to that, payments ranging from Rs.1,500 to Rs.3,500 had been made for an hour during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had been a surplus of Rs.26,173,802 as compared with the corresponding surplus of Rs.15,181,712 for the preceding year, thus indicating an improvement of Rs.10,992,090 in the financial result in the year under review as compared with the preceding year. The increase in exchange gain by Rs.8,436,092 and the Government recurrent grants by Rs.2,000,000 in the year under review as compared with the preceding year had been the main reason for the above improvement.

An analysis of the financial results for the year under review and 04 preceding years revealed a financial surplus from the year 2011 up to the year 2015. In the consideration of the employees' remuneration and depreciations for non-current assets, the contribution of the Institute which amounted to Rs.41,238,652 in the year 2011 had improved continuously and it had been Rs.81,852,722 in the year under review.

4. Operating Review

4.1 Performance

According to the Postgraduate Institute of Science Ordinance No.01 of 1996, the main objectives of the Institute are as follows.

- To be a Centre of Excellence in Postgraduate Education
- To be a Centre of Excellence for basic and applied scientific research
- Dissemination of Scientific Information to the Society
- To be the best Postgraduate Institute with highest financial and administrative efficiency

The following observations are made.

- (a) Out of the students registered for the Postgraduate in Science from the year 2011 up to the year 2015, the number of students who had completed the postgraduate course by 15 March 2016 had been between 53 per cent and 76 per cent of the number of students registered each year.
- (b) The student registration for Master of Philosophy and Doctor of Philosophy had decreased as 16 per cent and 33 per cent in the years 2014 and 2015 respectively as compared with the preceding year and the Institute had not inquired for the causes in this connection and taken necessary action.

4.2 Utilization of Funds

The following observations are made.

- (a) Even though the University Grants Commission had given instructions that the Institute should improve to a level so that the Institute depends fully on its earnings, fixed deposits and a cash balance totalling Rs.303,164,460 had remained in the Institute as at the end of the year under review, despite a sum of Rs.22,000,000 had been obtained from the Treasury in the year under review as recurrent and capital grants.
- (b) The sum totalling Rs.1,761,912 relating to 06 researches had been retained in the Research Fund for a period from 02 to 07 years without utilizing for research activities.

4.3 Personnel Administration

There were 14 vacancies in 11 posts of the staff of the Institute comprising 04 Permanent Professors and Visiting Professors, an Assistant Research Officer and 10 officers of the non-academic staff. As such, it had been a hindrance in fulfilling the academic and establishment activities of the Institute in an optimum manner.

4.4 Market Share

According to the World University Rankings developed by the Institute of Quacquarelli Symonds based on the criteria such as recognition of the Institute for academic purposes, demand for the graduates passing out from the Institute, student- to- employee ratio of the Institute, applying researches relevant to the Institute, international faculty ratio and international student ratio, the Postgraduate Institute of Science stood at the 15352nd position in the year 2014/2015. Nevertheless, in the year 2015/2016 the position had dropped by 800 places, to the 16152nd position. Even though the Institute had secured the 25th position among Local University Ranking in the year 2014/2015, it had dropped by one place, to the 26th position in the year 2015/2016. As such, the Institute had failed to maintain its ranking.

5. Accountability and Good Governance

5.1 Internal Audit

The preliminary report, quarterly reports and the summary report of the relevant year had not been submitted to the Management Audit Committee on the targeted days by the Internal Audit Unit on behalf of the Institute in terms of the Management Audit Circular No. DMA/2009(1) of 09 June 2009.

5.2 Audit Committees

The Audit Committee had not submitted its observations and recommendations to the Board of Directors of the Institute in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. It was further observed that matters such as the submission of the Annual Audit Plan to be prepared by the Audit Committee, Review of the Internal Control System and Committee Reports had not been fulfilled.

5.3 Budgetary Control

Variances in 30 Items ranging from 28 per cent to 87 per cent between the budgeted and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Weaknesses in 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.

Areas of Systems and Control

Observations

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| (a) Accounting | Non-compliance with the Sri Lanka Public Sector Accounting Standards. |
| (b) Funds Control | Investing funds contrary to the provisions of the Finance Act. |
| (c) Research and Grants | Failure in taking action in terms of research agreements. |
| (d) Stocks and Inventory Control | Non-presentation of Boards of Survey reports. |
| (e) Journal Vouchers | Failure in certifying Journal vouchers. |