

## **Postgraduate Institute of Agriculture – 2017**

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The audit of the financial statements of the Postgraduate Institute of Agriculture for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 20 of the Ordinance published in the Gazette Extraordinary No.68/11 of 26 December 1979 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. A detailed report in terms of section 108(2) of the Universities Act had been issued to the Director of the Institute on 11 June 2018.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 the financial statements. Section III 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**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial statements**

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#### **2.1 Qualified Opinion**

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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 Agriculture as at 31 December 2017 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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###### **Sri Lanka Public Sector Accounting Standard 02**

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According to the statement of financial position as at 31 December of the year under review, increase of trade and other receivables amounting to Rs.303,933 but it had been adjusted under operating activities as Rs.278,469 in the cash flow statement.

##### **2.2.2 Accounting Policies**

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The following observations are made.

- (a) According to the policy identified and disclosed for accounting government grants, it was stated that the expenditure relating to the assets purchased by utilizing capital grants was recognized as differed revenue, but assets valued at Rs.11,472,426 had been recognized as differed revenue, irrespective of the source of assets purchased.
- (b) A correct accounting policy relating to the accounting of institutional course fees income had not been recognized and an internal control system relating thereto had not been established.

##### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) According to the note 7 of the statement of financial position the value of depreciation on computers and computer accessories as at 31 December of the year under review amounted to Rs.3,232,713 whereas it had been stated in the statement of financial performance as Rs.2,672,713, resulting an overstatement of surplus by Rs.560,000.

- (b) Assets totalling Rs.5,179,805 purchased by incurring funds of the entity, in addition to the capital grants received in the year under review had been shown as minus balances in 3 provision accounts for capital grants instead of debiting relevant assets accounts and such minus balances had been set off against the balance of the capital grants incurred account and shown in the financial statements.

#### 2.2.4 Lack of Evidence for audit

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Evidence stated against the following items of accounts was not made available for audit.

Item of Account -----	Value -----	Evidence not made available -----
	Rs.	
- Course fees revenue received in advance	13,483,703	} Updated correct schedules
- Course fees revenue receivable	29,184,568	
- Revenue course fees related to the year	64,569,315	
- Provision for lecturer fees expense	13,163,275	
		} Detailed schedules relating to provision.

#### 2.3 Non-compliance with laws, rules, regulations and management decision

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In terms of paragraph 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, all surplus money should be invested in fixed deposits, Treasury Bills and short terms deposits with the prior approval of the Minister of Finance. On the contrary, a sum of Rs.60,000,000 had been invested in a state bank during the year under review without any approval.

#### 2.4 Transaction not supported by adequate authority

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Even though, the Board of Management of the Institute had granted approval on 26 May 2017 to take Library and Science deposits totalling Rs.3,661,000 deposited by students during the period 2007 to 2011 into revenue, contrary to that, a sum of Rs.1,371,600 relating to the period from 2012 to 2014 had been taken to revenue on 31 December 2017.

### 3. Financial Review

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#### 3.1 Financial Result

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According to the financial statements presented, the operation of the Institute had resulted in a surplus of Rs.89,663,796 for the year under review as compared with the surplus of Rs.43,321,912 in the preceding year thus indicating an improvement of Rs.46,341,884 in the financial results as compared with the preceding year. Increase of recurrent government grants and internal earning by Rs.22,159,896 and Rs.23,206,992 respectively had mainly attributed to this improvement.

In analysing the financial results of the year under review and the preceding 4 years, a surplus was generated from 2013 to 2017. However, when employees remuneration and depreciation on non- current assets were re- adjusted to the financial results, the contribution of Rs.75,057,038 in the year 2013, of the Institute had continuously improved and it had become Rs.165,991,718 in the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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##### **Operations and Review**

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The following observations are made.

- (a) The failure percentage of students enrolled during the academic years 2004 – 2014 for the post Graduate Degree in Master of Business Administration ( MBA) which is illegally conducted by the Institute ranged from 38 per cent to 92 per cent. Further, out of 44 students registered in the year 2014, none of the students had passed the examination.
- (b) In ranking internationally and locally, the number of foreign students registered is considered as a key criterion but only 2 foreign students had been registered in the year under review.
- (c) In ranking the institute in terms of web metrics, internationally, it was ranked the 16,389<sup>th</sup> place and 24<sup>th</sup> place internationally and locally in the year 2016 and in the year 2017, it retained the 15,356<sup>th</sup> place and 23<sup>rd</sup> place respectively.
- (d) Number of students registered in the year under review had decreased by 85 students as compared with the preceding year.

##### **4.2 Management Activities**

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Even though, the University Grants Commission had informed the Institute twice by its Chairman's Letter No.UGC/IUA/2/PGS dated 11 June 2010 that there was no legal right to conduct courses, irrelevant to the Post Graduate Institute of Agriculture ordinance, contrary to that, 233 students had been registered during the period 2011 to 2017 for this course and the MBA certificate had been awarded to 21 students of them.

### **4.3 Operating Activities**

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The following observations are made.

- (a) A sum of Rs.100,000 had been recovered from students as a part of course fees for the provision of a set of books required for the students registered for the Master of Business Administration Course and the Institute purchased books from external parties from that money. However, 77 books on 10 various subjects valued at Rs.508,739 had not been utilized by 31 December 2017. Action had not been taken to use those books effectively.
- (b) As the Institute had printed books, more than the requirements during the years 2012 and 2014, the value of various publications remained in the stores as at 20 January 2018 amounted to Rs.584,721.

### **4.4 Under-utilisation of Funds**

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The following observations are made.

- (a) A sum of Rs.526,022 existed in 2 research funds had not been used for any purpose whatsoever, during the year under review.
- (b) Out of the government grants of Rs.2,000,000 received in the year 2017 for the rehabilitation of buildings, a sum of Rs.1,600,000 had not been utilized as at 31 December 2017.

### **4.5 Personnel Administration**

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In terms of Section 9.10 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the approval of the Secretary to the Treasury should be obtained for recruiting persons of contract or casual basis. On the contrary, 5 officers had been employed on contract basis during the period 2015 to 2017 and a sum of Rs.3,926,585 had been paid as salaries and allowances.

## **5. Sustainable Development**

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### **5.1 Reaching Sustainable Development Goals**

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Every Public entity should act in accordance with the 2030 Agenda of the United Nations on Sustainable Development but the Post Graduate Institute of Agriculture was not aware about how it performs the functions coming under the scope of the Institute relating to the year under review.

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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In terms of Audit and Management Circular No.DMA/2009(1) of 09 June 2009 every internal audit unit should submit the preliminary report, quarterly report and the summary report for the year at target dates on behalf of its entity to the Audit and Management committee. However, they had not been so submitted.

### **6.2 Procurements and contract process**

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#### **6.2.1 Procurements**

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The following observations are made.

- (a) According to the procurement guideline 4.2.1(a) of the government procurement guidelines – 2006, a master procurement plan at least for a period of 3 years had not been prepared and the procurement plan prepared for the year under review had not been prepared in accordance with the form introduced by section 4.2.1 of the procurement manual.
- (b) The procurement plan prepared for the year 2017 by the Institute had not been prepared in compliance with the annual budget.
- (c) According to the procurement plan, it was planned to acquire goods and equipment valued at Rs.23,981,000 during the year under review, but only goods and equipment valued at Rs.3,371,463 had been acquired during the year under review. Accordingly, it was observed that the procurement plan had not been used as an instrument of control.
- (d) Without being identified the requirements, 110 Library books valued at Rs.1,290,210 had been purchased in the year 2017, but it had not been included in the procurement plan.

### **6.3 Budgetary Control**

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As compared the budgeted income and expenditure with actual income and expenditure, variations ranging from 21 per cent to 1251 per cent in 34 items were observed, the budget had not been made use of as an effective instrument of management control.

**7. Systems and Controls**  
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Weaknesses in systems and controls observed in audit were brought to the attention of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of system and control</b> -----	<b>Observations</b> -----
(a) Accounting	Policies and internal control systems required for correct accounting not applied to all the areas.
(b) Financial Management	Grants and funds not utilized enabling to achieve relevant objectives.
(c) Operations control	Books and records not maintained in accordance with financial regulations and relevant circulars.