

## **Postgraduate Institute of Management – 2017**

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The audit of financial statements of the Postgraduate Institute of Management Affiliated to the University of Sri Jayawardhanapura 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 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**

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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 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**

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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 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 Affiliated to the University of Sri Jayawardhanapura 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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The following non compliances were observed.

##### **(a) Sri Lanka Public Sector Accounting Standard 1**

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Disclosure has not been made in the financial statements in terms of Paragraph 129 (c) of guidance information on the income and expenditure such as Course fees of Rs.294,987,418, International training Programme income of Rs. 76,733,580, miscellaneous income included in other income Rs. 2,467,766 and international training programs expenditure of Rs. 62,205,835 Presented in the Financial Performance Statement of the year under review.

##### **(b) Sri Lanka Public Sector Accounting Standard 2**

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(i) The gratuity expenses of Rs 689,401 which was stated in the financial performance statement stated in the operating cash flow as Rs. 747,316 by with over adjusting of Rs. 57,915.

(ii) The cash flow on investment activities overstated by Rs. 9,371,888 as well as cash flow on operational activities understated by the same amount due to the interest income for the year Rs. 38,676,709 shown as cash flow instead of the interest income of Rs. 29,304,821 received during the year under review in cash.

**(c) Sri Lanka Public Sector Accounting Standard 7**  
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- (i) According to the Paragraph 65 of the standard, failure to review the useful life time of non-current assets annually, buildings and motor vehicles costing Rs.66,555,653 which were fully depreciated and remained in further use. As such, action had not been taken even in the year under review to revise the estimation error in terms of the Sri Lanka Public Sector Accounting Standard 03.
- (ii) According to the Paragraph 69 of the Standard it is necessary to depreciate an asset from the day when the asset was ready for use, but it was observed assets were accounted without considering the date of use of the assets which were acquired by the institution. In the sample check of furniture items of Rs. 309,576 and office equipment of Rs.755,121 purchased during the year under review, it was observed as per the financial statements depreciation of furniture was Rs. 6,503 and depreciation of office equipment was Rs. 127,262 but the correct amount should be Rs. 6,924 and Rs. 111,808 respectively.
- (iii) According to the paragraph 90 of the Standard, if the fixed assets have been declared to the revalued amount, sufficient disclosures should be made, but the valuation amount and other relevant information on the machinery and equipment, furniture, office equipment and laboratory and teaching equipment revalued on 1 April 2014 were not disclosed in the accounts notes and schedules relating to those assets had not been prepared.

**2.2.2 Accounting Deficiencies**  
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Following observations are made.

- (a) Although a policy of not calculating depreciation for the purchased year for non-current assets had been followed up to 2012, since the calculation of the depreciation of the year under review it should be applied for the assets purchased in the year 2012 which is depreciating as 20 per cent, Due to non-considering the library books amounting to Rs. 531,440 and a motorcycle amounting to Rs. 117,800 which were purchased in 2012, depreciation had been understated by Rs. 106,288 for library books and Rs. 23,560 for motorcycle.
- (b) Amount of payment for visiting lecturers had been overstated by Rs. 357,962 due to payments to visiting lecturers for the previous year Rs. 267,662 and accrued payment of visiting Lecturers for the previous year Rs. 90,300 had been included in the payment for visiting lecturers of the year under review.
- (c) Although the revenue related to the year under review was Rs.177,771,150, after deduct the deferred incomes from the fees charged for the 04 Business Administration programs conducted by the Postgraduate Institute of Management, as it was recorded as Rs.184,032,051, the course fee for the year under review was overstated by Rs.6,260,901 and the deferred income was understated by the same amount.

- (d) Revenue receivable from the degrees of Business Administration 2017 and Public Administration were understated by Rs.137,500 and Rs. 685,000 respectively and the deferred income from Business Administration 2017 course had been understated by Rs.275,000.
- (e) Even though the hall charges payment for the convocation was Rs.1,194,613, according to the bill sent by the administration of the BMICH the correct fee was Rs.1,068,142 and thus expenditure for the convocation was overstated in accounts by Rs.126,471.
- (f) The interest amount of Rs. 474,849 in respect of savings account of the fund management of the institution for the year under review was not taken into financial statements.
- (g) The interest income and interest income receivable amount had been overstated by Rs.397,794 due to non- calculation of correct interest receivable for 3 fixed deposits as at 31 December of the year under review.

### 2.3 Receivable and Payable Accounts

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The International Branch belonging to the institute in the city of Dubai had been closed down in September 2009 due to a fraud , despite a sum of Rs. 2,079,000 and Rs.11,603,217 remained from a long period as receivable and payable balances from that branch respectively, and those balances are being brought forward in the statement of financial position without an investigation.

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

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The following non-compliance was observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b> ----- <b>(I) Financial Statement 371</b>	(i) Even though the ad-hoc imprests should be issue only for the staff grade officers, advances of Rs. 2,126,000 had been issued to non- staff grade officers in 15 instances.  (ii) Beyond the maximum limit of the ad-hoc sub-imprest amounting Rs.100,000 advances amounted to Rs. 1,890,500 ranged between Rs.107,000 to Rs. 332,000 had been given for three officers at 10 instances.

(iii) Even though an officer who has obtained an ad-hoc advance has to settle as soon as the work is completed or within ten days, the settlement of 16 advance balances of Rs.774,000 had been delayed between 23 days to 147 days.

(II) Financial Regulation 1646

Even though the daily running charts written in the General Form 268 (b) of each month relating to the institute's vehicles should be forwarded to the Auditor-General before the 15 of each month along with the original monthly summary, no such actions had been taken in relation to the three vehicles of the institute.

(b) Stamp Duty Act No. 12 of 2006

Although a stamp fee of Rs. 25 should be recovered if a receipts or a release given for any amount or other property exceeds Rs.25,000, the stamp fee had not been recovered from the allowances exceeding Rs. 25,000 paid to the visiting lecturers.

(c) The 7th Tax Circular specified for each assessment year by the Commissioner General of Inland Revenue for the reduction of PAYE tax under dual employment according to Section 114 of the Inland Revenue Act No. 10 of 2006

The Institute had obtained the services of 48 Visiting Lecturers and Consultants during the year under review and a sum of Rs.14,651,745 had been spent as lecture fees. PAYE tax of Rs.1,966,135 had not been recovered from 35 participants who could have reveal the first employment and due to not following proper procedures to disclose information on the permanent service station of 13 persons who had been paid lecture fees of Rs. 1,932,775, as a result of the recoverable tax amount from them could not be calculated.

(d) Inland Revenue Circular No. SEC/2015/05 dated 06 July 2015 Section 9(v)

(i) Even though employers who do not make recovery and remit PAYE taxes before or on the due date are personally liable to pay the tax with the penalties, the institution had not paid much attention to deduct and remit PAYE taxes to the Inland Revenue Department on the prescribed rates.

(ii) Even though it should be necessary to have a prescribed form "PAYE salary list" for PAYE deductions, such a proper list had not been maintained.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Post Graduate Institute for the year under review amounted to a surplus of Rs.120,667,235 as compared with the corresponding surplus of Rs.92,366,483 for the preceding year, thus indicating an improvement of Rs.28,300,752 in the year under review as compared with the preceding year. Even though it was increased the International Training Programme expenditure by Rs.21,092,725 and academic service expenditure by Rs. 48,024,844, Increase of the course fee income by Rs.53,995,392, International of Training Programme income by Rs. 28,918,580 and other income by Rs. 10,159,470 had been mainly attributed for this improvement

In analyzing of the financial results for the year under review and the 4 preceding years indicated that the surplus of Rs. 40,784,288 in the year 2013 had been increased to Rs.120,667,235 by the year under review with fluctuations. However, the contribution for the year 2013 amounting to Rs.93,562,025 after making re-adjustments for the staff salaries depreciation on the non-current assets and taxes had increased up to Rs.232,954,082 by the year under review.

### **4. Operating Review**

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#### **4.1 Management Activities**

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Following observations are made.

- (a) The retired former Director, who had retired in 2012 with an aggregating loan balance of Rs. 2,874,482 as Provident Fund Loans Rs. 2,731,399 and Distress loan Rs. 143,083 and action had not been taken to recover relevant loans even in the year under review.
- (b) The former Deputy Finance Director, who had retired in 2012 with an aggregating loan balance of Rs. 1,018,174 as vehicle loan of Rs. 50,000, Distress loan of Rs. 194,600 and Provident Fund Loans Rs. 773,574 and action had not been taken to recover those loans from him even in the year under review
- (c) Although, leave with salary had been approved until 30 April of the year under review for a lady officer who did not report for work on a sick condition and salaries had been stopped since May month of the year under review due to not reporting for work after the leave period. Nevertheless, action had not been taken by the management to make retire from the service or take any other appropriate action of the relevant officer even by the end of the year reviewed and also there had been a distress loan balance of Rs. 80,668 from the relevant officer.

- (d) Even though, a savings account named 'Fund Management Account' has been initiated to transfer the surplus fund from the institute's current account to the automatic savings account, when exceeding the balance of Rs. 10 million, the relevant approvals had not been obtained to start such an account. Furthermore, the money in the relevant account has been transferred from time to time to the expenses of the current account, but authorizations and approval controls had not been introduced.

## **4.2 Transactions of Contentious Nature**

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Following observations are made.

- (a) A night party was held parallel to the graduation ceremony of the year under review and in addition out of the total cost of Rs. 6,852,668 a sum of Rs.4,045,156 or 59 per cent spent for conduct the graduation ceremony as traditional formal ceremony, and it was spent a sum of Rs. 2,807,512 or 41 per cent for the night party and the amount collected from the students for the party was Rs. 208, 000 while the balance Rs. 2,599,512 was borne by the institution.
- (b) According to the procurement done in December 2015 to select a cleaning service provider it was agreed to deploy 10 workers per day, but two more employees were deployed for service, and in addition to the agreed amount, Rs.300,367 had been paid in the year under review. Out of the contract agreement a sum of Rs. 1,166,100 had been paid to the cleaning staff for arrange the table and chairs of lecture halls of the Institute from time to time. However, when checking the daily attendance of employees it was observed there were occasions when the relevant employees had not reported on certain days while claiming allowances.
- (c) An amount of Rs. 3,501,466 had been distributed among the staff in addition to the regular salary and allowances from the excess of 7 Management Development Courses conducted during the year under review delivering certificated with the official stamp of the institution using the physical and human resources of the organization.
- (d) The Director of the institution continued to use a pool vehicle instead of allocating an official vehicle according to the Public Administration Circular No. 13/2008 dated 26 June 2008 amended by the Circular No.13/2008 (iv) dated 09 February 2011, Public Enterprise Circular No.01/2015 dated 25 May 2015 and University Grants Commission Administration Circular No. 13/2015 dated 18 September 2015 and the Director had used 1,229 litres fuel to the value of Rs. 143,735 exceeding the approved fuel amount of 1,800 litres per year according to the circular without the approval.

## **4.3 Apparent Irregularities**

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Although it was agreed to provide meals for students, staff and guests on a condition of renting a fee of Rs. 2,000 per month of the institute's canteen, apart from that, supplying meals for various educational programs, meetings, festivals and workshops held at the institute was assigned to the canteen keeper except from the procurement process. In the year under review, supply of 142 food items for a range from Rs. 124,400 to Rs. 597,637 monthly had been assigned to the canteen keeper and Rs. 4,791,685 had been paid for this.

#### **4.4 Idled and Under-utilized Assets**

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The Motorcycle valued at Rs. 117,880 belong to the Institute was idled for many years.

#### **4.5 Staff Administration**

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Following observations are made.

- (a) The approved academic cadre of the institute was 18 and the non- academic cadre was 26 and there were vacancies of 04 Lecturer posts, one Management Consultancy post and 02 non-academic posts.
- (b) As per Section 2 (iv) in the letter issued by the Department of Management Services, with the title of "University Staff Review - Postgraduate Institute of Management 2017", dated 23 August 2017, DMS/0011/PIM, all recruitments should be made in accordance with the recruitment procedure and if there are no such procedures, the new recruitment procedures should be prepared and get approved, but there was no formal recruitment procedure pertaining to the posts of Senior Management Consultant and Management Advisor. According to the above letter, 12 Management Consultative posts had been approved but from 1996 onwards, 13 have been recruited on contract basis without appointing permanent officers for such positions.
- (c) Since the year 2015, an officer has been recruited on contract basis without the appointing a suitable officer for the permanent post of Assistant Librarian of the academic staff, and 06 employees had been employed on contract basis without being appointed to permanent posts for 06 positions of the non-academic staff.

### **5. Sustainable Development**

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#### **5.1 Achieving the Objectives of Sustainable Development**

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Every public institution should act in compliance with according to the letter No. NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policy and Economic Affairs and the United Nations Sustainable Development "Agenda" of the year 2030 and with respect to the year under review, the Post Graduate Institution of Management had not been aware as to how to take measures relating to the activities under purview of their scope. Accordingly, no action had been taken to identify the targets, statistical data and milestones in achieving the targets relating thereto, as well as the indicators for evaluating the performance.

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

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#### **6.1 Internal Audit**

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An Internal Auditor had not been appointed for audit activities of the institute and the Internal Auditor of the University of Sri Jayewardenepura had been assigned with this task. However, an adequate internal audit was not carried out in the institution.



## **6.2 Procurement and Contract Activities**

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### **6.2.1 Procurement**

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Following observations are made.

- (a) Although a main procurement plan has been prepared for the year under review, by the institute a detailed procurement plan identifying requirements of each divisions had not been prepared and due to that goods to be purchased and exact timeframe to purchase had not been identified.
- (b) Although Rs 130 million has been included in the procurement plan since 2015 for the construction of a building, the relevant procurement process had not commenced even by the end of the year under review and its revised estimate was amounted to Rs. 248 Million.

## **6.3 Budgetary Control**

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A variance of 17 per cent was observed between the budgeted income and the actual income of the year under review and minus variances ranging from 32 per cent to 21 per cent observed between the budgeted and actual expenditure in 06 Objects were observed. Accordingly, thus indicating that the budget had not been made use of as an effective instrument of management control

## **6.4 Unresolved Audit Paragraphs**

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Action had not been taken even end of the year under review regarding the following observations pointed out by the report of the Auditor General in 2016.

- (a) In accordance with the recommendations made by the Committee on Public Enterprises in 2009 on the fraud of Rs. 58.2 million in the Dubai branch of the institute was handed over to the Criminal Investigation Department on 29 March 2011 for investigations. The Director of the institute had been informed on 13 May 2017 that the CID had forwarded the relevant investigation to the Attorney General and it was informed on 12 June 2018 that the he had not received any legal instructions up to now.
- (b) Instead of keeping separate accounts in the name of the relevant institution when part of goods and services had to pay as an advance payment, they were recorded in the ad-hoc advance registry. A sum of Rs. 3,894,438 had been paid in 10 instances in the year under review had been recorded in the ad-hoc register.

## 7. 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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
(a) Fixed Assets Management	Deficiencies in the revaluation of assets, disposal and deficiencies in accounting thereof and non-updating of Register of Fixed Assets
(b) Accounting	- Non-preparation of accounts according to the Sri Lanka Public Sector Accounting Standards
(c) Accounting of Course Income	- Deficiencies in identifying revenue, deferred revenue and income receivable.
(d) Deducting Tax and Remittance	- Deficiencies in calculating income receivables, recoveries and remittances.
(e) Procurement	- Actions not taken according to the Procurement Guideline, Procurement manual and Procurement Plan  - Getting service from one supplier continuously without having to carry out annual procurements for maintenance, cleaning and security of the restaurant