

Postgraduate Institute of Science – 2017

The audit of financial statements of the Postgraduate Institute of Science affiliated to the University of Peradeniya 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 21 of the Postgraduate Institute of Science Ordinance, No. 01 of 1996 published in the Extraordinary Gazette 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. A detailed report in terms of Section 108 (2) of the Universities Act was issued on 04 July 2018.

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 conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, statement of financial performance and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following non- compliances were observed.

(a) Sri Lanka Public Sector Accounting Standard 01

Even though all the income and expenditure should be included in the statement of financial performance while identifying the deficit or the surplus of an entity in terms of Paragraph 99 of the Standard, the net value had been taken in to the statement of financial performance deducting the expenditure incurred amounting to Rs. 5,797,725 from the revenue received amounting Rs. 8,327,699 for the short term courses, workshops and the PGIS Congress conducted by the Institute in the year under review.

(b) Sri Lanka Public Sector Accounting Standard 02

The following observations are made.

- (i)** Even though the investment income received in cash during the year was Rs. 20,854,126 it had been shown under the investment activities of the cash flow statement as Rs. 24,642,620 .
- (ii)** Even though the value of the total investments made during the year in the fixed deposits were Rs. 42,399,320 , adjustments had been made under investment activities as that was a cash outflow amounted to Rs. 43,504,468.
- (iii)** Even though the increase in expenses payable as at 31 December in the year under review was Rs. 9,107,490 , that had been shown under changes in working capital as Rs. 2,167,540 .
- (iv)** The fixed deposit belonging to P. Amarasinghe Scholarship Fund amounted to Rs. 475,803 and the savings deposit amounted to Rs. 629,345 identified and brought to accounts in the year under review had been adjusted under financial activities as a cash inflow.

(c) Sri Lanka Public Sector Accounting Standard 07

As a result of not reviewing the useful life time period for the non- current assets annually in terms of Paragraph 65 of the Standard even though the non- current assets in 04 class of assets cost at Rs. 44,161,411 were entirely depreciated are further being used. Accordingly, action had not been taken to revise the estimated error occurred in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Policies

The Institute had earned an income of Rs. 5,372,874 by conducting 25 short- term courses during the year under review. Nevertheless the policy of income accounting related to the short- term courses had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the interest income on fixed deposits relating to the year was Rs. 21,453,924 , due to that was shown as Rs. 23,285,697 the surplus of the year amounted to Rs. 1,831,773 had been brought to accounts overstated.
- (b) Even though more than an year elapsed after identifying the financial fraud made by not crediting the cash obtained by cancelling of 13 fixed deposit certificates to the Institute's Fund during the period from the year 2007 to the year 2017 amounted to Rs. 74,663,525 , the adjustments regarding that had not been made in the financial statements in the year under review.
- (c) The computers and other equipment amounted to Rs.7,101,453 provided by the Higher Education for the Twentieth Century (HETC) Project to the Institute up to the preceding year actions had not been taken to bring in to accounts.

2.2.4 Lack of Evidence for Audit

Since the evidence related to the following each account items shown as the evidence indicated below against them could not be satisfactorily vouched or accepted due to non-submission of evidence for audit.

Item -----	Value ----- Rs.	Evidence not furnished -----
(a) Property , plant and equipment	94,383,830	Register of Fixed Assets
(b) Adjustments made on the changes in policies	129,646,278	Schedules
(c) Course fee income	59,739,331	Confirmation documents
(d) Expenditure on 04 short - term courses	1,123,232	Registers of Attendance, Expenditure Details, Evaluation Reports
	----- 284,892,671 =====	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though more than one year period had elapsed, actions had not been taken to recover a vehicle hire income amounted to Rs. 20,473 recoverable by hiring vehicles to the external institutions.
- (b) Although it had elapsed a period after completion of the course from 05 months to 28 months a sum of Rs. 6,413,381 payable for the short- term courses and workshops had not been settled.

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) Employee Provident Fund No. 15 of 1958 and Letters of Labour Commissioner No. ප්‍ර/ආයතන/11 of 24 August 2001 and කමි.ලෙ/රව්15/2015 of 12 September 2015	Even though the study allowance should not be considered at the calculation of the contribution for Employees Provident Fund, Pensions Fund and Employees Trust Fund, as the contribution to above Funds was calculated including the study allowance for the academic staff of the Institute during the year under review, a sum of Rs. 703,233 had been overpaid.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulations 751	The equipment valued at Rs. 3,977,361 purchased for the 09 Research Projects implemented during the period from the year 2013 to the year 2017 by the Institute had not been entered in to Inventory Registers.

2.5 Transactions not confirmed by Adequate Authority

The following observations are made.

- (a) The debit balance stood in the Adjustment Account amounted to Rs. 1,833,829 remained as at 31 December in the preceding year had been written off to the General Reserves without an approval.

(b) Even though all the excess money should be made in fixed deposits on prior approval of the Minister of Finance , Treasury Bills, short- term deposits or in an another effective investment in terms of the Section 8.2.2 of the Hand Book for Good Governance shown by the Public Enterprises Circular No. PED/ 12 of 02 June 2003 , actions had not been taken to obtain the approval of the Board of Management and the Minister of Finance for the investment of a sum of Rs. 20,000,000 which had been invested in the year under review.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result for the year under review had resulted in a surplus of Rs. 39,552,311 as compared with the corresponding surplus of Rs. 17,917,356 for the preceding year thus indicating an improvement of Rs. 21,634,955 in financial results in the year under review as compared with the preceding year was observed. Increase of the investment income by Rs. 6,427,905 and the course fees by Rs. 2,023,379 and the decrease in salaries and wages by Rs. 7,453,520 had mainly caused for this improvement.

In analyzing financial results in the year under review and 04 preceding years, a financial surplus had been indicated from the year 2013 to the year 2017 and after re-adjusting personnel emoluments and depreciation for non- current assets, the contribution of the Institute amounting to Rs. 52,227,660 in the year 2013 had been continuously improved and had been a sum of Rs. 97,012,649 in the year under review.

4. Operational Review

4.1 Performance

4.1.1 Activity and Review

From the 1, 727 students registered for the 21 courses operating in the Institute from the year 2011 to the year 2016, nine hundred fifty seven students or 55 per cent out of the registered students had not completed the courses. When considering the courses separately , the percentage of the students who had not completed had been ranged from 11 per cent to 100 per cent , 04 courses had not been completed by any student thereof. The period to be completed also had elapsed from 01 year to 05 year.

4.2 Management Activities

Even though more than one year period had elapsed revealing of the money fraud by a Senior Officer of the Institute by cancelling the 13 fixed deposit certificates belonging to the Institute during the period from the year 2007 to the year 2017 , any action which should be taken in terms of Financial Regulations 104 had not been taken in respect of that.

4.3 Operational Activities

As per the information in respect of the revenue and expenditure related to the Researches furnished to audit, the balance of the Research Grants in 34 Research Projects as at 31 December 2017 was Rs. 23,972,571 and all the details in respect of the Research Projects had not been included in the files maintained by the Institute.

4.4 Underutilizing of Funds

The following observations are made.

- (a) The cash balance of 14 Research Projects that did not have any transactions during the year under review was Rs. 8,726,012 as at 31 December 2017.
- (b) Although the out of the income received by conducting short term courses by the Institute, a 5 per cent is being allocated for the development activities of the Board of Studies which conducts the related courses , a sum of Rs. 790,177 had not been utilized allocated up to the end of the year under review.

4.5 Idle and underutilized Assets

Nine toners which are being used for the office equipment valued at Rs. 110,524 purchased by the Institute had been stored for more than 02 years.

4.6 Staff Administration

Actions had not been taken in compliance with the Section 9.10 of Public Enterprises Circular No. PED/ 12 of 02 June 2003 in respect of the 05 vacancies in 04 posts in the approved cadre of the Institute existing for a along period .

5. Sustainable Development

5.1 Achieving of Sustainable Development Objectives

Even though every government institution should act functioned in compliance with the Circular No. NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the National Policy and Economic Affairs and the United Nations year 2030 “Agenda” for Sustainable Development , the Postgraduate Institute of Science had not taken action to identify / establish the Sustainable Development Objectives and Goals relating to the year under review.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

- (a) The Master Procurement Plan consisting the procurement activities expected to be implemented during at least 03 years had not been prepared in terms of Section 4.2.1 (a) of the Procurement Guidelines 2006 and the Procurement Plan for the year under review had not been prepared in accordance with the format introduced by the Section 4.2.1 of the Procurement Hand Book.
- (b) Even though the estimated expenditure according to the Procurement Plan in the year under review was Rs. 64.57 million , the value of the procurements made during the year was Rs. 30.25 million. Accordingly, it was observed that the procurements had not been carried out in accordance with the Procurement Plan.

6.2 Budgetary Control

As variances ranging from 22 per cent to 102 per cent between the budgeted income and expenditure and the actual income and expenditure of 41 items were observed , thus indicating that the budget had not been made use of as an effective instrument of financial control.

7. Systems and Controls

Deficiencies 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 Controls	Observations
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(a) Accounting	(i) Not following certain Sri Lanka Public Sector Accounting Standards (ii) Accounting of expenses had not been made identifying correctly.
(b) Fixed assets Control	Donations not taken into accounts.
(c) Researches and Grants	Planning of the Researches not implemented as it could be able to achieve the objectives of the Institute.
(d) Procurement	Actions not taken in compliance with the Procurement Guidelines.