

Postgraduate Institute of English – 2017

The audit of financial statements of the Postgraduate Institute of English affiliated to the Open University of Sri Lanka 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) 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 misstatement 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Postgraduate Institute of English 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

Sri Lanka Public Sector Accounting Standard 07

- (a) Even though actions should be taken to revalue the fair value of 100 per cent depreciated assets and to disclose in the financial statements in terms of Paragraph 42 of the Standard, Institute had not taken actions to disclose the fair value of the books and periodicals further in use in the accounts, out of the books and periodicals fully depreciated as at 01 January 2017 and a cost of Rs.479,508 by the Institute.
- (b) Even though annual depreciation rates of all the fixed assets should be disclosed in terms of Paragraph 86 of the Standard, depreciation rate of the Plant and Machinery of the Institute had not been so revealed.

2.2.2 Unexplained Differences

As per the financial statements, investment value of the treasury bills amounted to Rs.46,761,464 as at the end of the year under review and that value amounted to Rs.47,031,800 as per the schedules and hence an unexplained difference amounted to Rs.270,336.

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

Non-compliance with Laws, Rules and Regulations observed in audit are stated below.

Reference to Laws, Rules, Regulations	Non-compliance
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(a) Section 3.1 of Chapter XX of the Establishments Code for Universities and Higher Education Institutions.	An attendance register had not been maintained to confirming the arrival and the departure of the academic staff of the Institute. Without confirming the arrival, sum paid as salaries and allowances in the year 2017 amounted to Rs.9,183,656 .

(b) Public Enterprises Circular No. PED 56 dated 27 January 2011.

If there are any surplus funds in a certain government institution, even though the balance other than working capital requirement for the next 06 months should be remitted to the treasury, action had not been taken accordingly.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2017 had been a surplus of Rs.10,110,775 as compared with the corresponding surplus of Rs.3,584,286 for the preceding year, thus indicating an increase of Rs.6,526,489 in the financial result of the year under review as compared with the preceding year. Increase of Government Grants for recurrent expenditure by Rs.6,541,098 as compared with the preceding year had been the main reason for the above increase.

In analyzing the financial results of the year under review and 04 preceding years, the surplus of Rs.3,413,496 of the year 2013 had been decreased up to Rs.2,400,723 in the year 2014 and thenceforth it had been continuously increased and amounted to Rs.10,110,775 by the year under review. In readjusting the employees' remuneration, depreciation for the non-current assets to the above surplus, the contribution of Rs.8,819,530 of the Institute in the year 2013 had been continuously increased and amounted to Rs.21,075,415 as at the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Operation and review

This Institute had been established in the year 2006 with the objective of creating an Institute with a financial capability which contributes to the development of the country aiming at improving of English Teaching Education. Number of students who completed Postgraduate courses and Diploma course amounted to 39 and 09 respectively during the period of the initiated year of 2006 of the institute to year 2017. Even though a certain progress was seemed during the period of past 03 years, it had been further unable to maintain the contribution made to achieve the initiated objectives of the Institute at an optimum level.

4.2 Management Activities

The office building of the Postgraduate Institute of English had been constructed expending Rs.91,591,024 without legally obtaining the ownership of a land belongs to the Open University.

4.3 Underutilization of Funds

The following observations are made.

- (a) Without considering the unutilized grants in the relevant years, out of the annually received funds from the Treasury for the Capital Expenditure, funds had been obtained for the capital expenditure by requesting again and again. Due to that Rs. 44,676,212, Rs.35,829,434 and Rs.17,189,312 respectively had been remained out of the money so received from the treasury in the years of 2015, 2016 and 2017. Out of the money so remained, Rs.46,761,464 had been utilized in the short term investment by the end of the year under review.
- (b) Attention had not been paid towards utilizing surplus funds balances on the short term investments by forecasting the time period to be incurred capital and recurrent expenditure of the institute and accordingly identifying the working capital requirement. Due to that a balance of approximately Rs.03 million had been continuously remained in the bank current accounts and the saving accounts during the year under review.

4.4 Staff Administration

The following observations are made.

- (a) Rs.10,314,906 had been paid for the academic staff as salaries and allowances during the year under review. Nevertheless, more than 85 per cents of the lectures, workshops and seminars held by the Institute had been held at the weekend days. For that, it had been paid Rs.841,250 for the visiting lecturers, Rs.290,000 for the lecturers of the institute and Rs.276,704 as incentive for the non-academic staff.
- (b) From the initiation of the Institute to the year under review, conducting lectures had been done at the weekend days. Accordingly, it was observed that academic staff had not engaged in lectures in the weekday like other universities as well as a contribution of over 75 per cent out of the total lecturers had been received from the visiting lecturers.

5. Accountability and Good Governance

5.1 Internal Audit

Even though the audit of this Institute is done by the Internal Audit Unit of the Open University, the Internal Audit had not been planned for minimizing the deficiencies such as failure in taking action in terms of Financial Regulations and Circular instructions.

5.2 Budgetary Control

Due to a material variance of 60 per cent to 307 per cent was seemed between the budgeted income and expenditure and the actual income and expenditure, it was observed that the budget had not been use as an effective 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
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(a) Financial Control	(i) Capital grants had not been properly utilized. (ii) Surplus Funds had not been utilized on short term investments.
(b) Internal Audit	Management had not taken action to utilize the internal audit for strengthening the internal control of the Institute.
(c) Budgetary Control	Estimates had not been prepared by reviewing the income and the expenditure of the previous years.
(d) Assets Control	Purchased date, the cost of the certain assets of the fixed asset register had not been mentioned and there had been incompatibilities between the Board of Survey reports.