Postgraduate Institute of English – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Postgraduate Institute of English for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Postgraduate Institute of English as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-Section 16(1) of the National Audit Act, No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;

- Whether the Institute has performed according to its powers, functions and duties; and

- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

The Institute is required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
(a) The fair values of assets depreciated at 100 per cent, shall be revalued and disclosed in the financial statements in terms of paragraph 42 of Sri Lanka Public Sector Accounting Standard 7.	A committee has been appointed to revalue the books and periodicals of the Institute and has planned to complete the relevant activities during the year 2019.	

However, out of books and periodicals costing Rs.1,821,381 fully depreciated as at 01 January 2018, the Institute had not taken action to reveal the fair value of books and periodicals still used, in accounts.		
(b) The annual depreciation ratios of all fixed assets shall be disclosed in the financial statements in paragraph 86 of Sri Lanka Public Sector Standard 7. However, the depreciation ratio relating to plant and machinery of the Institute had not been disclosed.	The plant and machinery of the Institute had been depreciated at a 20 per cent depreciation ratio and the said ratio had not been indicated in notes to accounts. Action will be taken in future to correct it.	Action should be taken to prepare financial statements in compliance with Sri Lanka Public Sector Accounting Standards.

1.5.3 Accounting Policies

Audit Observation	**Comments of the Management**	**Recommendation**
The policy of computing depreciation on fixed assets had not been disclosed in the financial statements by the Institute. Accordingly, in the depreciation of assets, certain assets had been depreciated according to the simple method and certain assets had been depreciated according to the Diminishing Balance Method without following a regular accounting policy.	The computation of depreciation of fixed assets is carried out under the simple method and action will be taken to correct it as pointed out by Audit.	The depreciation policy should be disclosed in the financial statements and a Regular Depreciation method should be followed.

1.5.4 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Differences existed between the ledger accounts generated from the computerized accounting system of the Institute and various schedules prepared from the said system. Moreover, it was observed that in the preparation of financial statements, certain Items of Accounts had been prepared based on the said schedules while certain Items of Accounts had been based on the balances of ledger accounts.	As pointed out by Audit, action will be taken to rectify those errors in future.	In the preparation of financial statements, balances of ledger accounts should be applied and the balances of ledger accounts should be tallied with the relevant schedules.
(b)	In the computation of the revaluation profit from wooden furniture and fittings, revalued as at 31 December 2018, the cost and the accumulated depreciation thereof had been overstated and understated by Rs.21,399 and Rs.132,469 respectively. As such, the revaluation profit had been understated by Rs.153,868. Moreover, a difference of Rs.23,000 was observed between the value indicated in the report submitted relating to revaluation of wooden furniture and equipment purchased in the year 2017 and the values taken into consideration in the computation of revaluation profit.	As pointed out by Audit, in the computation of revaluation profit, the exchanged wooden furniture and fittings have not been considered. According to the revaluation report, in the computation of revaluation profit, the cost of wooden furniture and fittings purchased in the year 2017 has been identified as Rs.2,514,670.72 in the financial statements. There is no contradiction indicated under this. It has been shown under Note 06 to annual accounts of the Institute.	In the computation of revaluation profit, the adjustments on depreciation of the relevant assets should be made accurately.

	Moreover, a difference of Rs.843,904 was further observed between the values shown in the financial statements relating to wooden furniture and equipment and the value according to the ledger.		
(c)	The net value of furniture and fittings costing Rs.134,900 purchased in the year 2018 had not been indicated in the financial statements.	It is indicated that the provision for depreciation amounting to Rs.8,857 as pointed out by Audit, has been brought to account.	All assets purchased, should be included under assets in the financial statements.
(d)	The depreciation value of computers and accessories and office equipment accounted in the financial statements amounted to Rs.1,156,113 and Rs.531,485 respectively and the values which should be brought to account amounted to Rs.1,125,469 and Rs.526,885 respectively, thus observing a difference of Rs.30,644 and Rs.4,600 respectively.	The reason for the difference, has been making provisions for depreciation relating to these items under the diminishing method. Action will be taken to correct this error.	Action should be taken to adjust correct depreciation values in accounts.

1.5.5 Unreconciled Control Accounts

Item	Value according to Financial Statements	Value according to Corresponding Reports	Difference	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.		
General Reserve	36,695,746	27,859,763	8,835,983	Action will be taken to correct the error.	Action should be taken to maintain ledger accounts accurately and to prepare financial statements.

1.6 Non-compliance with Laws, Rules, Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 756 and 757	An Annual Board of Survey should be conducted and the copies of reports thereon submitted to the Auditor General. However, action had not been so taken over a period of 15 preceding years relating to library books costing Rs.2,995,936.	A committee has been appointed to revalue the books and periodicals of the Institute and plans have been made to complete relevant matters during the year 2019.	Action should be taken in terms of Financial Regulations.
(b) Section 3.1 of Chapter XX of the Establishments Code for Universities and Higher Educational Institutes	A sum of Rs.12,273,298 had been paid in the year 2018 as salaries and allowances without confirming the arrival and departure of the academic staff of the Institute.	As the functions of the academic staff cannot be limited to a specific time frame, the arrival and departure are not recorded in any of the universities in Sri Lanka. The University Grants Commission and the Ministry of Higher Education as well are aware of this matter.	Action should be taken in accordance with the Universities Establishments Code.

2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a surplus of Rs.8,835,983 as compared with the corresponding surplus of Rs.10,110,775 for the preceding year, thus observing a decline of Rs.1,274,792 in the financial result. The decrease of Rs.2,274,400 in the income from short term courses for the year under review as compared with the preceding year, had mainly attributed to this decline.

2.2 Analysis of Tendencies in Main Items of Income and Expenditure

The travelling expenses of the year under review amounted to Rs.824,529 as compared with the travelling expenses of Rs.94,331 for the preceding year, thus observing an increase of Rs.730,198 representing 774 per cent. The foreign travelling expenses incurred in the year under review had resulted therefor. Moreover, the expenditure on maintenance for the year under review amounted to Rs.652,924 as compared with the expenditure on maintenance of Rs.260,348 for the preceding year, thus observing an increase of Rs.392,576 representing 151 per cent. The increase in expenditure on maintenance for property, plant and equipment by Rs.238,535 had been the main reason therefor.

2.3 Analysis of Ratios

The current ratio for the year under review stood at 5.32:1, thus observing a decline of 14 per cent as compared with the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
An office building valued at Rs.91,591,024 had been constructed on the land of the Open University without vesting the legal ownership.	The building of the Institute had been constructed on the land granted by the Board of Control of the Open University and non-moving assets cannot be maintained according to the Ordinance of the Institute. As such, a problem exists on the ownership of the land and discussions are being held with relevant Divisions therefor. Moreover, relevant information has been presented in the financial statements by notes to accounts.	Action should be taken to vest the lands used by the University.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
It was observed that, in evaluating the progress of achieving the initial objectives within the period of 12 years after the establishment of the Institute, the expected targets have not been achieved. The number	Even though a deficiency in performance occurred due to lack of human and physical resources in the history of the Institute, a rapid growth and an effective performance had been achieved by the Institute during the first few years. Even though comments have been made thereon in the Audit replies of preceding	Action should be taken to improve the entire performance.

of applications sold for this course from the year 2006 to the year 2014 stood at 1,485 while the number of students who passed the entrance examination was 638. Moreover, the total number of students registered in the Institute by the end of the year 2018 was 461. However, the number of students who completed the postgraduate courses and Diploma courses up to the end of the year 2018 were at a low level of 50 and 11 respectively.	years, it is observed that negative comments are mentioned thereon continuously.	

3.3 Idle or Underutilized Assets

Audit Observation	Comments of the Management	Recommendation
It was observed that the Fund balance amounting to Rs.3,967,500 of the Postgraduate Institute of English Development Fund (PGIE Development Fund) had remained idle for a period of 04 years.	The Development Fund of the Institute is expected to be used for the development activities of the Institute building and to purchase fixed assets.	Funds should be utilized for achieving the objectives of the Fund.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
The Internal Audit Unit of the Open University carries out the Audit activities and an adequate staff had not been attached therefor. Moreover, the Institute had not taken action to correct the shortcomings pointed out by internal Audit	The Internal Audit Unit of the Open University of Sri Lanka carries out Audit activities of the Postgraduate Institute of English as well. It is accepted that the approved cadre is inadequate for the Internal Audit Unit and requests have been made to increase the staff.	The attention of the Management should be drawn towards carrying out an effective Audit by the Internal Audit Unit.

reports. As such, it was observed that the shortcomings pointed out by Audit reports, still remain.	All internal Audit reports are discussed at the Audit Committee of the Postgraduate Institute of English and the progress of implementing them is continuously monitored by the Audit Committee and the Internal Audit Unit.	

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
Significant variances ranging from 60 per cent to 426 per cent were observed in the comparison of budgeted income and expenditure with actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.	In the preparation of estimates of expenditure, unexpected expenses have to be incurred in certain situations and even though estimates have been prepared, there are situations in which certain estimated expenses are not incurred. However, in the preparation of estimates, maximum attempt is made to prepare estimates in approximation to the actual expenditure.	The budget should be made use of as an effective instrument of management control.