

Institute of Human Resource Advancement affiliated to the University of Colombo - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Human Resource Advancement affiliated to the University of Colombo 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 Institute as at 31 December 2018, and its financial performance and its 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

Reference to the relevant Standard and Non-compliance	Comments of the Management	Recommendation
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In terms of Sri Lanka Public Sector Accounting Standard 7, the useful life of non-current assets had not been reviewed annually and as such, property, plant and equipment costing Rs.5.460,216 had been fully depreciated. However, they had still been in use. Accordingly, action had not been taken to revise the said estimated error in terms of Sri Lanka Public Sector Accounting Standard 3.	Necessary action will be taken to estimate the useful life before the end of the year 2019.	Action should be taken in terms of Accounting Standards.

1.5.3 Accounting Deficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Even though the value of sundry payables amounted to Rs.444,647 under differences in working capital in the cash flow statement, the said value had been shown as Rs.554,581, thus overstating by Rs.109,934.	Action will be taken to correct it in the next year of accounts.	The cash flow statement should be accurately prepared.
(b) According to ledger accounts, purchase of fixed assets during the year under review amounted to Rs.35,515,936. However, the said value had been shown in the cash flow statement as cash outflows of Rs.37,693,250, thus overstating by Rs.2,177,314.	The correct expenditure relating to purchase of fixed assets has been shown in the cash flow statement and ledger accounts.	The cash flow statement should be accurately prepared.
(c) The sum of Rs.6,303,980 spent for purchase of assets in the preceding year not related to the cash flow statement of the year under review, had been shown as a cash outflow under financial activities in the cash flow statement.	The balance relating to the unspent Capital Account has been comprised of capital funds received relating to the preceding year and those funds had not been utilized up to now. As those funds have been used to settle relevant capital expenditure during this year, it has been shown as a cash outflow in the cash flow statement.	Only financial transactions relating to the year under review should be included when preparing the cash flow statement.
(d) The expenditure incurred for assets valued at Rs.44,772,390 purchased from funds earned by the Institute before the year 2015, have been deducted from the Development Fund and continuously brought	These balances have been reflected due to purchase of assets directly through course funds before the year 2015 by identifying it as capital outflows. Action will be taken to transfer these capital expenditure to the Capital Account in the next year	Credit balances relating to purchase of assets and donations should be taken into the income timely.

forward in the Capital Grant Account and action had not been taken to settle it. Moreover, action had not been taken to timely identify the value of the motor car amounting to Rs.5,795,000 received as donations in the year 2015 as income.

of accounts. Action will be taken to account the donation value of the motor car into the income in the next year of accounts.

- (e) Accrued expenses of Rs.1,005,302 relating to the year under review had not been brought to account. The accrued expenses mentioned, are expenses payable relating to examination fees and lectures. Identifying these expenses early as expenses payable and bringing them to account is difficult. Action will be taken to make provisions for relevant expenditure and to correct this shortcoming in the next year of accounts. Accounting should be done accurately.

1.5.4 Un-reconciled Control Accounts or Records

The following observations are made.

Item	Value as per Financial Statements	Value as per Corresponding Records	Difference	Comments of the Management	Recommendation
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	Rs.	Rs.	Rs.		
(a) Stock as at the last date of the year under review	1,530,156	1,507,015	23,141	Payments had not been made relating to 2 Goods Received Notes and as such, this difference has occurred. This loan has been included under creditors and brought to account.	Corresponding records should tally with the financial statements.

(b) Capital grants opening balance	84,784,426	85,052,490	268,064	The debit balance of Rs.134,032 in the Capital Grants Account has been pointed out by Audit through audit queries in the year 2017. The said balance has been transferred to the Development Fund for correction, thus resulting in this difference.	Corresponding records should not differ.
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1.6 Accounts Receivable and Payable

1.6.1 Advances

Audit Observation	Comments of the Management	Recommendation
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<p>Twenty eight to 185 days had delayed for settlement of advances amounting to Rs.580,655 granted in 27 instances and even though 03 advances totalling Rs.206,650 had lapsed from 50 to 268 days, it had not been settled even up to 16 May 2019. Moreover, advances totalling Rs.3,864,025 had been granted to 04 persons in 12 instances, exceeding the maximum limit of granting advances.</p>	<ul style="list-style-type: none"> • The date of settlement of advances is mentioned in the Annexure as the date of submitting the vouchers relating to settlement of those advances to the Finance Division and actually, not the final date of settlement, in case any balances of those advances remain. <p>However, settlement of advances as well is carried out properly at present.</p> <ul style="list-style-type: none"> • Instructions have been given to take further action in compliance. 	<p>In granting advances and to settle advances immediately after completion of the relevant purpose, action should be taken in terms of Circular instructions.</p>

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 371 and Public Finance Circular No.3/2015 of 14 July 2015	<ul style="list-style-type: none"> The grant of Sub-Imprest should be limited to Staff Officers. However, advances totalling Rs.3,807,567 had been granted to 14 Non-staff Officers in 121 instances. 	<ul style="list-style-type: none"> Granting of Sub-imprest for Non-Staff Officers had been completely discontinued and Sub-imprests are granted only to Staff Officers. 	Action should be taken in terms of laws, rules and regulations.
(b) Public Enterprises Circular No.PED/25of 29 July 2004	Treasury approval had not been obtained for investment of fixed deposits totalling Rs.178,503,752.	Necessary action is being taken for obtaining Treasury approval for deposits.	Action should be taken in terms of relevant circular instructions.
(c) Circular No.2004/අස/1 (Amendment – 2016) of 22 December 2016 of the National Library and Documentation Services Board	A physical verification had not been carried out relating to library books costing Rs.4,107,082 remained as at 31 December 2018.	Disposal of books had been carried out continuously and as such, a physical verification on books could not be carried out afterwards. Moreover, a verification on books has been planned to be carried out in June 2019.	Action should be taken in terms of relevant circular instructions.

<p>(d) Public Finance Circular No.2/2014 of 17 October 2014</p>	<p>Even though the Board of Survey should be completed before 15 January of every financial year and the report on Board of Survey for the preceding year presented to the Auditor General with a copy to the Chief Accounting Officer before 17 March, action had not been taken accordingly.</p>	<p>The Board of Survey for the year 2018 has been conducted on 10 and 11 of January 2019 through 4 groups. Fixed assets have been categorized under 10 classes and in numbering, certain items (assets) had been numbered incorrectly. The said assets had been categorized and numbered again. After the correction process, the Board of Survey had been conducted again for the second time on 29 March 2019 and the report thereon had been handed over to the Director and it had been submitted to the Academic Council.</p>
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(e) University Grants Commission Circular No.636 of 14 July 1995	Results of examination should be issued within a period of 03 months from the date of holding the examination. Nevertheless, a period between 07 months and 10 months had lapsed for issuing results of 04 examinations held in the years 2017 and 2018 by the Institute.	The results of Examination the first semester carried out efficiently in terms of relevant circular instructions. Examination for the year 2018 had delayed due to reasons such as non-academic strike, taking a long period to compare results, delay in submitting research reports and in receiving marks from examiners.
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2. Financial Review

2.1 Financial Results

The operations for the year under review resulted in a surplus of Rs.29,335,880 as compared with the corresponding surplus of Rs.42,996,700 for the preceding year, thus observing a decline of Rs.13,660,820 in the financial result. The decrease in the income from external courses had been the main reason therefor.

3. Operating Review

3.1 Procurement Management

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The Procurement Plan had been revised at the end of the year to adjust to the functions performed contrary to Guideline 4.2.1(f) of the Procurement Guidelines.	Updating of the Procurement Plan relating to the year 2018, has been carried out in December 2018.	Action should be taken in terms of provisions in Procurement Guidelines.

<p>(b) Even though it had been included in agreements that a performance security of 10 per cent of the contract value should be obtained from selected suppliers, it was observed at the audit test check that such performance securities had not been obtained for a value of Rs.940,000 from two suppliers.</p>	<p>Even though securities had been requested, goods could not be retained due to lack of storing facilities in the Institute. As such, action has been taken to obtain goods as required.</p>	<p>Action should be taken as per the agreement.</p>
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3.2 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
<p>The approved cadre and the actual cadre of the Institute stood at 98 and 54 respectively and as such, the number of vacancies was 44. A sum of Rs.7,543,227 had been paid in the year under review as employees' salaries by recruiting 17 employees on contract basis for the non-academic staff.</p>	<ul style="list-style-type: none"> • The approved cadre of the Institute in the year under review stood at 98 and 54 of them belong to the actual cadre. Action was taken in the year 2018 to fill 15 vacancies in the actual cadre. • In granting approval for the cadre by the Department of Management Services, approval has been granted to recruit employees on contract basis in the year 2017 as well and it is informed that they have not been recruited to fill vacancies as substitutes in the permanent staff of the Institute. 	<p>Action should be taken to fill vacancies.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>The Action Plan should be prepared in accordance with the Corporate Plan prepared relating to achieving 09 objectives of the Institute so as to cover the years 2018-2022. However, the activities and basic performance indices used in measuring results thereof included in the Corporate Plan had not been included in the Action Plan relating to the year 2018. As such, it was observed that action had not been taken to measure performance based on those indices.</p>	<p>Even though plans have been made for the year 2018 in the Corporate Plan of the Institute for the period from 2018 – 2022, fourteen functions have been indicated as functions not included in the Action Plan. The Board of Control of the Institute has decided to continue those functions from the year 2019 as the achievement of performance of the said functions was difficult during the relevant year under unavoidable circumstances. Accordingly, the Action Plan relating to the year 2018 has been revised and the said revised plan has been submitted to the Academic Committee Number 401 and obtained approval relating thereto.</p>	<p>The Action Plan should be prepared in a manner in which the Corporate Plan is being implemented and the functions included in the Action Plan should be performed in that year itself and to evaluate the operation by identifying indices.</p>

4.2 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
<p>In the comparison of budgeted amounts with actual amounts, the actual expenditure had increased over the budgeted expenditure relating to acquisition of fixed assets and expenditure on maintenance by 654 per cent and 50 per cent respectively. Accordingly, it was revealed that the budget of the Institute had not been prepared and made use of as an effective instrument of management control.</p>	<p>The relevant officers have been instructed to minimize the shortcomings in the budget from the year 2019 and to revise the budget in instances where it is not comparable with the actual amounts.</p>	<p>The budget should be prepared realistically and made use of as an effective instrument of control.</p>