

## **1.1 Qualified Opinion**

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The audit of the financial statements of Post Graduate Institute of Management 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 provision of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of 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**

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My opinion is qualified 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**

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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 determine 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 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 Responsibilities for the Audit of the Financial Statements**

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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 auditor's 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, misrepresentations, 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 auditor's 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 auditor's 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**

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### **1.5.1 Internal Control over the preparation of financial statements.**

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Entities are 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

## 1.5.2 Non-compliance with the Sri Lanka Public Sector Accounting Standards

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Following observations are made.

<b>Non Compliance with relevant standard</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) In preparing the Statement of Cash Flow as per Public Accounting Standards of Sri Lanka No. 02, Under the cash flow generated by investment activities the interest income of fixed deposits for the year amounted to Rs.51,839,355 was shown instead of showing the interest income received in cash amounting to Rs.51,511,527.	Total interest income of Rs.51,839,353 stating as a fund receivable under investment activity is correct. The amount invested together with the return on total interest income of Rs.19,945,509 is denominated as a flow of funds under investment activity.	The Cash Flow Statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standard No. 2.
(b) Although the Actuarial Method is used to allocate gratuity according to the Sri Lanka Public Sector Accounting Standards 19, the institute had to pay a higher amount of gratuity than the reserved amount of gratuity as it did not follow the same method for gratuity provision. For example, the gratuity provision made to an officer who resigned on 01 March 2018 was Rs.45,316 and the gratuity paid to him was Rs.250,000.	The company has used the Sri Lanka Accounting Standards formula to calculate provision for gratuity payments. However, since the Public Sector Accounting Standards No. 19 has been issued so far, steps will be taken to calculate gratuity allocations in the next year in line with that standard.	Gratuity provisions should be calculated according to the Sri Lanka Public Sector Accounting Standards 19.

### 1.5.3 Accounting Deficiencies

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Following observations are made.

<b>Audit Observation</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) No action had been taken to remove the cost and cumulative depreciation from the accounts relating to the assets cost of Rs.1,340,000 which was disposed for a sum of Rs.78,500 on 13 November 2018.	Steps will be taken in the coming year to remove the cost and accumulated depreciation of the assets disposed from those accounts	Steps should be taken to remove the cost and accumulated depreciation of the assets disposed from those accounts
(b) Revenue receivable for the Degree Programs of the Business Administration 2017 and the Public Administration 2017 are overstated by Rs.2,456,250 and Rs.75,000 respectively and deferred income for the Business Administration 2018 course was understated 287,500 in accounting and The Deferred Income relating to the Master of Business Administration course in Customs and International Trade of Rs.59,375 had not been taken to accounts.	Agree with audit observation regarding course fees. Steps will be taken in the future to make relevant corrections.	Revenue must be correctly identified and accounted for.

- (c) The balance of the foreign currency account maintained by Sampath Bank after exchange conversion should be Rs.1,749,812 but it was accounted as Rs.63,514 and as a result The cash balance analysis of the Current Assets and Cash Flow Statement of the Financial Statement understated by Rs. 1,686,298. The corresponding accounting error was corrected in the year 2019. Management must verify the mathematical accuracy of the accounts before approving them and accurately record the ledger balance in the financial statements.
- (d) Course fees of Rs.23,674,874 due from 09 courses for the period from 2012 to last year had been written off against the income of the year under review without formal approval. Further, the relevant write-off were specified at miscellaneous expenses rather than shown in the Financial Performance Statement. Arrears income receivable has been written-off after the graduation ceremony of previous years. Proper approvals must be obtained for write-off and should be specified in the Financial Performance Statements.

## 1.6 Non-Compliance with Laws, Rules, Regulations and Management Decisions

Following observations are made.

Reference to Laws, Rules, Regulations	Non-Compliance	Management Comment	Recommendation
(a) Establishment Code for the University Grants Commission and Higher Educational Institutes.	(i) Chapter 9 Paragraph 5.1(a) and Chapter 7 Paragraph 21.1  Although it has been stated that the officers in Administrative Grades are not entitled to overtime and that the calculation of holiday pay should be based on the combined salary of a day, contrary to these clauses, the Senior Assistant Registrar of the institute and a System Analyst were paid allowances amounting to Rs.1,558,200 during the year under review based on a different accounting system approved by the Board of Management.	Lecture and other study programs of the institute are conducted on weekdays from 5 pm to 9 pm, and on public holidays. A large number of Public and Private Sector Management Grade Officers participate in these courses. During the period, these officers will be employed to supervise facilities, conduct examinations and other matters.	It should be complied with the provisions of the Establishments Code for the University Grants Commission and the Higher Education Institutions



(ii) Chapter 2 Paragraph 26.1	Even though a board of survey has to verify all the goods and fixed assets of the institute at the end of the financial year, a board of survey for library books had not been conducted for the year under review.	A board of survey of library books has been carried out for the year under review and the relevant report has been prepared.	A copy of the Board of Survey report should be submitted to the Auditor General.
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**(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

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Financial Regulation 371 (2) (b) and Public Finance Circular No.3/2015 dated 14 July 2015.	(i) Although ad-hoc sub imprests should be issued only to the staff officers, advances of Rs.1,373,000 had been issued to officers in non-staff positions on 16 instances.	Considering the practical situation, advances have been made to the officers in the non-staff positions, but these advances are used under the direct supervision of the relevant Staff Officer.	When issuance of ad-hoc sub imprests must always comply with the Financial Regulations 371 and Public Finance Circular No. 3/2015 dated 14 July 2015.
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(ii) Advances of Cash advances Rs.1,318,000 had been are made only in given to 02 officers in the most essential 97 instances exceeding situations. The the maximum ad-hoc maximum limit sub imprest limit of may be exceeded Rs.100,000. on the amount of work required by the advance. Seventy per cent of the advances were made for the attendance of members of the Board of Management, Audit Committees and Board of Directors.

**1.7 Non-compliance with Tax Regulations**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Department of Inland Revenue of Sri Lanka has ordered the institute to pay fines of Rs.1,202,561 for the year 2016 and Rs.408,565 for the year 2017 due to non-payment of Nation Building Tax within the specified period.	Due to the computer information system used by the Inland Revenue Department since 2016, these fines have been calculated without any flexible basis. It was requested from the Department of Inland Revenue to release of the relevant fines.	Statutory payments must be made on time.

## **2. Financial Review**

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### **2.1 Financial Result**

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The operating result of the year under review amounted to a Profit of Rs. 137,877,096 and the corresponding surplus in the preceding year amounted to Rs. 122,461,566. Therefore an improvement amounting to Rs. 15,415,530 of the financial result was observed. The main reason for the improvement is even though miscellaneous expenses are increased by Rs.22,323,889, the course fee income is increased by Rs. 39,346,575.

### **2.2 Trend Analysis of major Income and Expenditure items**

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Miscellaneous expenses for the previous year amounted to Rs.1,350,985 and it was amounted to Rs.23,674,874 in the year under review. Due to receivable fees from various courses relating to the past several years, written-off of under miscellaneous expenses, the various expenses for the year under review was increased by 1,652 per cent compared to the previous year.

### **2.3 Ratio Analysis**

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#### **(a) Current Ratio**

The total current asset for the year under review amounted to Rs.674,742,633 and the current liabilities amounted to Rs.93,071,479, thus it was observed that the current ratio of the Institute was 7.24: 1 in the year under review, compared to the previous year it was 5.07:1.

#### **(b) Quick Ratio**

The total liquidated asset for the year under review amounted to Rs. 661,166,468 and the current liabilities amounted to Rs.. 93,071,479, thus it was observed that the quick ratio of the Institute was 7.10: 1 in the year under review, compared to the previous year it was 5:1.

(c) **leverage ratio**

- **Debt Ratio**

The total assets of the University for the year under review amounted to Rs.880,559,509 and the total loan amounted to Rs.101,500,786, thus it was observed that the debt ratio to the assets was 11.52 per cent in the year under review, compared to the previous year it was 19.05 per cent.

- **Debt Equity Ratio**

The equity capital for the year under review amounted to Rs.779,058,723 and the loan capital amounted to Rs.101,500,786, thus it was observed that the debt equity ratio to the assets was 13.02 per cent in the year under review, compared to the previous year it was 23.54 per cent.

### 3. **Operational Review**

#### 3.1 **Management Inefficiencies**

Following observations are made.

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) (i) The fraud of Rs.58.2 million in Dubai branch which was opened by the institute in 2002 had been handed over to the Criminal Investigations Department (CID) on 29 March 2011 to investigate according to the recommendations made by the Public Enterprises Committee Report 2009. It was re-sent on 12 June 2018 that the Criminal Investigation Department had sent the extract	The case in relation to the financial irregularities of the Dubai branch has been delayed until the Criminal Investigation Department has received the Attorney General's advice.	Necessary action should be taken to carry out the investigation.

of the investigation to the Attorney General and had not been advised by the Attorney General till now. However, it was observed that no case has been filed until 10 years after the alleged fraud.

- (ii) Balance receivables and payables of Dubai Branch amounting to Rs.2,079,000 and Rs.11,603,217 respectively were being carried forward in the Financial Statement without being investigated for a long time and publication stock of Rs.832,912 remained idled until to the year under review. Action will be taken after concluding the investigation of Dubai Branch conducting by the Criminal Investigations Department (CID). The work has taken more than 10 years. Immediate solutions need to be addressed.
- (b) A sum of Rs.444,000 had been paid during the year under review to 13 non- academic staff officers as travel allowances, according to a calculation made on the approval of the Board of Management which is not comply with any circular or other law of the University Grants Commission or the Ministry of Public Administration or the Treasury. The relevant transport allowances will be paid in accordance with a decision taken by the Board of Management with the concurrence of the Treasury and the University Grants Commission. There is proper approval for that payment. According to the institute's calculations, transport allowances have been correctly paid. It is unacceptable that the Treasury approval obtained and that the calculations are correct. The formal approval of the Treasury had not been obtained and travelling and other allowances should be paid only in accordance with the relevant circular instructions and the provisions of the Establishments Code.

- (c) Transport Allowance of Rs.50,000 per month as Rs.40 per kilometre had been paid on the approval of the Board of Management to the Senior Assistant Registrar of the Institution who is not entitled to the transportation allowance under the circular No. 13/2015 dated 18<sup>th</sup> September 2015 of the University Grants Commission or any other law. The relevant transport allowances to the staff of academic and administration will be paid in accordance with a decision taken by the Board of Management with the concurrence of the Treasury and the University Grants Commission. There is proper approval for that payment.
- (d) According to the circular no 01/2015/01 dated 15 May 2015 issued by the Ministry of Finance, the payment of casual allowance to officers who supervise examinations and conduct interviews in Business Administration Degree Programs conducted in the countries such as Dubai, Doha, Kuwait. On the contrary, a sum of Rs.20,000 had been paid per day with the approval of the Board of Management dated 10 December 2015 for the payment of travel expenses for the year 2016. Food allowance of Rs.20,000 per day was paid for the Officers and Academic staff attending Postgraduate Courses in Dubai, Doha and Kuwait. Foreign travel allowances are calculated as per the relevant circular. Action should be taken as per the relevant circular.

- (e) Action had not been taken to recover even in the year under review the loan balances of Rs.2,874,482 and Rs.1,018,174 respectively from former director and deputy financial controller of the institute who had retired in the year 2012.
- Retired officers' loans are recovered only when the provident fund is released. When the Provident Fund of the relevant Director and the former Deputy Finance Director is released, action will be taken to recover the loans.
- The amount of money owed to the institution should be recovered before retirement. Provident Fund should be recovered only when there are no other options available.

### 3.2 Operational Inefficiencies

#### Audit Observation

#### Management Comment

#### Recommendation

(a) Stock control system had not been followed relating to consumer goods of Rs.20,923,210 purchased during the year under review

Consumer items include textbooks, student report books, brochures and stationery that are provided to students. Out of these, other than stationery will be used during the entire year. However, steps will be taken to regularize the existing stock control system in this regard.

Store books should be maintained by appointing a Store keeper and the receipts, issues and balances should be recorded in a clear manner. Monitoring should be done periodically.

### 3.3 Idled or Under Utilized Assets

#### Audit Observation

#### Management Comment

#### Recommendation

Publications amounting to Rs.1,279,728 were underutilized in the central stores of the institute throughout the previous year.

These consignments have been used, but not accounted for. The necessary adjustments will be made in the next year.

Store records should be maintained properly.

### 3.4 Procurement Management

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Following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) Although the institute has prepared a major procurement plan for the year under review, as a detailed procurement plan has not been prepared with identifying the needs of the relevant sectors, Specific items to be purchased and the exact timeframes for them to be purchased were not identified.	Procurement activities have been carried out according to the procurement plan and according to the requirements of the institution.	Should comply with the Procurement Guidelines.
(b) A sum of Rs.171 million had been included in the procurement plan from 2015 for the construction of a building for the institution, but the procurement process had not commenced by the end of the year under review.	Calling Bids for the construction of the building have been completed in 2019. The agreement is expected to be signed in July 2019.	The procurement plan should be prepared by identifying requirements and action should be taken to implement that plan.

### 3.5 Human Resource management

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Following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) There were 41 employees in the year 2017 and the per-employee cost was Rs.2,084,019 in the institute. Accordingly, the per-employee cost has increased by 16 percent over the previous year.	Employee salary growth has led to an increase in employee costs.	Overtime and travel expenses should be controlled.



- (b) There were 03 vacancies of Lecturers in the institute as at end of the year under review. Applications are called annually to fill the vacant lecturer positions but there is a shortage of suitable candidates, due to that the vacancies cannot be filled. Arrangements have been made to call applications for 2019 as well. Action should be taken to fill the vacancies.
- (c) In terms of Section 2 (iv) of the letter No. DMS/0011/PIM dated 23 August 2017 issued by the Department of Management Services titled “University Staff Review - 2017 Post Graduate Institute of Management” it was stated that all recruitment should be done in accordance with the scheme of recruitment and if such schemes are not available, new recruitment procedures should be prepared and approved. It was observed that there was no formal scheme of recruitment prepared for the posts of Senior Management Consultant and Management Consultant. Further, as per the above letter, 12 Management Consultant positions had been approved but 12 consultants had been recruited on contract basis without taking action to appoint permanent officers to the posts from 1996 to 31 December of the year under review. A scheme of recruitment has been prepared for the posts of Management Consultant and Senior Management Consultant and the approval of the Board of Management was received in June 2019. The recruitment of consultants is usually done on a contract basis. Action should be taken to prepare a proper recruitment procedure and appoint permanent staff.
- (d) An officer has been recruited on contract basis since 2015 without appointing a suitable officer to the permanent post of Assistant Librarian of the academic staff. Steps will be taken to fill the post of Assistant Librarian. Action should be taken to recruit permanent officers.

- (e) The post of Public Relations Officer of the non-academic staff, 03 vacancies in the post of Management Assistant and 02 vacancies in the post of Driver were filled by 6 officers recruited on contract basis. Arrangements have been made to conduct the interview relevant to filling two vacancies in the post of Driver. Steps will also be taken to fill other positions. Action should be taken to recruit promptly.

### 3.6 Vehicle Fleet Management

Audit Observation	Management Comment	Recommendation
<p>Contrary to the University Grants Commission Circular No. 13/2015 dated 18 September 2015, a sum of Rs.1,60,225 was spent for 1,370 liters of fuel for the 12 months during the year under review, exceeding the fuel limit of a month to the director of the institute.</p>	<p>Since the Director is the Chief Executive Officer of the institute, he is busy with various duties and accordingly the fuel limit is exceeded. Due to the car used by the Director is exceeded the useful lifetime. This has led to a reduction in fuel economy. An official vehicle has been allocated to the Director from June 2018 and steps have been taken to avoid exceeding the fuel limit.</p>	<p>Should act in accordance with the circulars.</p>

#### 4. Accountability and Good Governance

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##### 4.1 Presentation of Financial Statements

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Even though financial statements for the year under review should be furnished before 28 February 2019, contrary to that it was furnished by the institute on 28 March 2019.	Not Replied.	Financial statements should be submitted to the Auditor General within 60 days of the end of the financial year.

##### 4.2 Audit Committee

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<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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Only one audit committee meeting had been conducted for the year under review.	There were delays in the appointment of Board of Management members due to the setting up of a new protocol for the institute and accordingly appointing members to the Audit Committee also delayed. 04 meetings are scheduled to be conducted for the year 2019.	According to the circular, at least four audit committees should be held annually.

### 4.3 Sustainable Development Goals

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**Audit Observation**

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Although all government agencies must comply with the United Nation's 2030 "Agenda" on Sustainable Development and the Post Graduate Institute of Management had not been aware as to how to take measures relating to the activities under purview of their scope. Accordingly, action had been taken to identify the sustainable development goals and programme of achieving targets for identify the targets, statistical data and milestones in achieving the targets relating thereto, as well as the indicators for evaluating the performance according to the United Nations Sustainable Development Agenda for the year 2030.

**Management Comment**

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The Sustainable Development Goals, Targets and Indicators will be prepared and actioned will be taken accordingly in the future.

**Recommendation**

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Action should be taken to identify the Sustainable Development Goals and Targets.