

**1.1 Qualified Opinion**

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The audit of the financial statements of the Postgraduate Institute of Science 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 report to Parliament appear in this report.

In my opinion, except for 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 Science as at 31 December 2018, and of 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**

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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**

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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 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 Scope of Audit (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

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

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 Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
(a) In terms of Paragraph No.99 Sri Lanka Public Sector Accounting Standard 01, all revenue and expenditure should be included in the Statement of Financial Performance in recognizing deficit and surplus of an entity. Nevertheless, revenue of Rs.14,191,231 and expenditure of Rs.14,972,823 relevant to the research activities had not been included in the Statement of Financial Performance.	In terms of Sri Lanka Public Sector Accounting Standard 18, it is found difficult to identify the income received for the researches as income. The amount entitled to the Institute as commission according to the agreements has been stated as the income.	In terms of Paragraph No.99 Sri Lanka Public Sector Accounting Standard 01, income and expenditure should be included in the Statement of Financial Performance.

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| (b) | As a result of not being complied with the Paragraph 51 of Sri Lanka Public Sector Accounting Standard 03, depreciation value of 02 items of non-current assets amounting to Rs.1,439,473 relating to the preceding years had been brought to account as the depreciation of the year under review.  | We have made adjustments in respect of revisions made in the estimate for the provisions for depreciations.  | Corrections should be made with retrospective effect in terms of Sri Lanka Public Sector Accounting Standard 03. |
| (c) | As a result of not being complied with Sri Lanka Public Sector Accounting Standard 07, the useful life of non-current assets had not been reviewed annually, and as such, non-current assets costing Rs.53,946,827 belonging to 4 assets classes had been further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in estimation according to the Standard 03. | Useful life of assets had not been reviewed in terms of Sri Lanka Public Sector Accounting Standard 07. Action will be taken in terms of Sri Lanka Public Sector Accounting Standard 03 in future. | Action should be taken in terms of Sri Lanka Public Sector Accounting Standard 07.                               |

### 1.5.3 Accounting Policy

Audit Observation	Comments of the Management	Recommendation
The Institute had not identified a correct accounting policy relating to accounting course fees and an internal control system relevant thereto had not been established. As such, receivable	Since a considerable number of students leave the course half way, a policy is adopted to not include receivables of the courses as income, over	Income applicable to the year should be recognized and brought to account.

course fees income of Rs.12,231,332 a long period. pertaining to the year under review that had been identified by the Institute as at 31 December of the year under review had not been brought to account.

#### 1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Even though the tendency for recovering the sum of Rs.50,338,160 misappropriated during the period from the year 2008 to 2016 remained at a minimum level, it had been stated under the non-current assets.	Action is being taken to file a civil case regarding this matter in consultation with the Attorney General's Department. There is a great confidence on the recovery of these monies.	Disciplinary actions should be expedited and accordingly, adjustments to be made in the accounts should be made.

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
Two Distress Loan balances of Rs.111,637 that remained unrecovered for over a period of one year as at 31 December of the year under review had been stated under the current assets.	Since the above amount being outstanding loan balances of 02 interdicted officers, it could not be recovered. The University of Peradeniya has been informed to send the due amount by deducting the	The receivable income should be recovered without delay or future steps should be taken in accordance with the Establishments Code.

same from the salary of an officer.

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

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
Financial Regulation 1646	Although the Running Charts relevant to each month should be furnished to the Auditor General before 15 of the following months, there observed 35 instances where steps had not been taken accordingly.	The Drivers are taking steps to submit the Running Charts to the Management of the Institute before the due date.	Action should be taken in accordance with the Financial Regulations.

**1.8 Financial Management**

Audit Observation	Comments of the Management	Recommendation
(a) In terms of Section 8.2.2 of the Manual for the Good Governance specified as per the Circular No.PED/12 dated 02 June 2003 of the Director General of Public Enterprises and Section 11 of the Finance Act No.38 of 1971, all excess money should be invested in fixed deposits, Treasury Bills, short term deposits or another effective investment. Nevertheless, balances ranging from Rs.35 million to Rs.52	Excess monies have been invested in maximum by 31 December 2018 and only a balance of Rs.3.8 million remains as at that date. Since the payments to be made for the researches are not certain, maintenance of that account is essential.	Optimum financial management should be ensured within the existing laws and rules.

million could be observed in current accounts of the Postgraduate Institute of Science at the end of each month from January to October 2018.

- (b) Two bank accounts of the Postgraduate Institute of Science had not been maintained actively during the year under review and the above accounts included the Government Grants, funds released for the loans of the Provident Fund and the money as course fees. There was a balance of Rs.17,966,826 in those accounts as at 31 October 2018.
- Due to the financial fraud committed in large scale in the Institute, transactions in the People's Bank are maintained in minimum level. Nevertheless, since the students had continuously deposited money in those accounts, above balance could be observed therein.
- Funds should be efficiently utilized for the achievement of the objectives of the Institute.

## **2. Financial Review**

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### **2.1 Financial Results**

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The operations of the Institute for the year under review had resulted in a surplus of Rs.61,460,877 as compared with the corresponding surplus of Rs.39,552,311 for the preceding year, thus observing an improvement of the financial results by Rs.21,908,566. This improvement was mainly attributed to the increase in the investment income, course fees, and variation of foreign exchange rate by Rs.3,673,308, Rs.11,513,977 and Rs.24,175,129 respectively.

In analysing financial results of the Institute of the preceding year and 05 preceding years, a financial surplus could be observed from the year 2014 to 2018 and in taking into consideration the employees remunerations and depreciation for the non-current assets, the contribution of the Institute of Rs.62,509,205 in the year 2014 had continuously increased and it had turned out to be Rs.133,885,827 during the year under review.



### 3. Operating Review

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#### 3.1 Operating Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) It was observed at the audit test check that research activities had not been completed within the agreed period of 04 research projects and there was no information to the effect that the reports on physical progress of the researches of 07 projects or the final progress reports had been furnished.	Action has been taken to extend the project periods of which the prescribed period had elapsed and action will be taken to maintain the copies of the progress reports of the researches within the Institute in future.	The management's attention should be drawn on handling the affairs of the Institute in accordance with the plans.
(b) As compared with the preceding year, the number of courses conducted by the Institute had decreased from 20 to 11 by 45 per cent during the year under review. Therefore, the number of students had declined from 426 to 309 by 27 per cent during the year under review.	As enrolment had been done only once in the year 2018 and lesser number of students had applied for certain courses, budget balance of those courses had stood at higher level and a decision had been taken not to conduct such courses. Accordingly, the number of students had decreased in the year 2018.	A specific policy should be established relating to the students enrolment for the courses and steps should be taken in accordance therewith.

### 3.2 **Idled or Underutilized Property, Plant and Equipment**

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Audit Observation	Comments of the Management	Recommendation
----- Although the number of drivers in the approved cadre of the Institute was three, only two drivers had been deployed in the service from the inception and as such, two of 04 vehicles of the Institute always remained underutilized.	----- It is not essential to recruit drivers incurring unnecessary expenses and steps can be taken to make recruitments in future, if required.	----- Arrangements should be made so as to utilize resources in maximum capacity.

### 3.3 **Procurement Management**

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Audit Observation	Comments of the Management	Recommendation
----- In terms of Guidelines 4.2.1(a) and 4.2.3 of the Government Procurement Guidelines, the Master Procurement Plan inclusive of the procurement activities expected to be carried out at least within a period of 03 years had not been prepared.	----- Procurement Plan will be prepared from the year 2019.	----- Action should be taken in accordance with the existing Guidelines.

### 3.4 **Human Resource Management**

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Audit Observation	Comments of the Management	Recommendation
----- (a) In the examination of approved cadre and the actual cadre of the Postgraduate Institute of	----- Recruitments are made to the existing posts of the Institute according to the	----- Action should be taken either to fill or abolish the vacancies

Science, 14 vacancies could be observed in 10 posts.

recommendations of the Board of Management, as expeditiously as possible. requirement of the Institute and the expenditure.

(b) Since 02 officers in 02 posts had been removed from the new cadre report according to the new cadre report of the Postgraduate Institute of Science approved by the Department of Management Services on 06 July 2018, the relevant officers who are presently in the service had been included in the excess cadre.

In this connection, explanations have been made to the Department of Management Services.

In obtaining approval for the staff, it should be done in accordance with the requirements of the Institute.

**4. Accountability and Good Governance**

**4.1 Budgetary Control**

Audit Observation

Comments of the Management

Recommendation

When comparing budgeted income and expenditure with the actuals, variations ranging from 21 per cent to 229 per cent of 34 items was observed. Accordingly, the budget had not been made use of as an effective instrument in management control.

Only a variation of 13 per cent exists between the actual and budgeted income. It is unavoidable and the unrest situation prevailed in the Institute in the year 2018 and steps taken to minimize the expenses had given rise to exist savings in several Objects. The total variation of the expenditure is 6 per cent.

A realistic budget should be prepared and action should be taken accordingly.