

1.1 Opinion

The audit of the financial statements of the Postgraduate Institute of Humanities and Social Sciences 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. Comments and observations which I consider should be submitted to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the National Research 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 Opinion

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 unqualified 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 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 intends 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 Scope of Audit (Auditor's Responsibility on 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 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 Company'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 board 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 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Vehicle lease instalment amounting to Rs. 199,410 paid for the Month of November in the year under review had been debited in the telecommunication expenses account and as a result, the amount had been understated in the vehicle lease instalment account and the amount had been overstated in the telecommunication expenses account.	The vehicle lease paid for the Month of November had been mistakenly adjusted to the Postal and Telecommunication expenses Account. Action will be taken to avoid such mistakes.	Objects should be accurately identified and brought to accounts.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
Even though course fees have to be charged before the final examinations of each course, the amount of Rs. 19,984,027 prevailed for a period of 01 – 03 years after the end of courses had been included in the amount of Rs. 39,665,822 stated as course fees receivable in relation to 07 courses in the year under review.	One (01) to 03 years had lapsed after the end of the minimum period of courses that has to be completed and the active period of those courses or the maximum period for completing the courses has not still lapsed. Students who have been registered for courses will pay the full course fees when they complete the courses during the maximum course period.	Action should be taken to immediately recover the receivable income during the relevant period.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations No. 1646	Even though daily running charts of every month have to be presented to the Auditor General before the 15 th day of the following month, the daily running charts of the vehicle bearing No. WPNC – 9019 had not been presented to the Auditor General.	Necessary action will be taken to present the relevant daily running charts to the Auditor General in the future.	Action should be taken in accordance with the Financial Regulations.
(b) Public Administration Circular No. 09/2009 of 16 April 2009 adopted by University Grants Commission Establishments Circular Letter No. 02/2010.	Even though the arrival and departure of all the officers should be marked using the finger scanners, arrival and departure had been marked only by using the attendance register.	All the arrangements are being made to introduce finger scanners to mark the arrival and departure to and from the institution.	Action should be taken in accordance with the Circulars.
(c) Paragraph 3.1 of the Circular No. 30 of 2016 of the Secretary of the Public Administration and	Fuel test of the vehicle bearing No. WPNC-9019 obtained on lease and possessed by the institute had not been conducted and running charts of the vehicle	The fuel burning testing of the vehicle was carried out on 10 October 2018 and the balancing	Action should be taken in accordance with the Circulars.

Home Affairs had not been completed. of daily running charts has been commenced.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.31,978,203 and the corresponding surplus in the preceding year amounted to Rs. 22,108,617. Therefore, an improvement amounting to Rs. 9,869,586 in the financial result was observed. The major reasons for the improvement are the increase in recurrent grants by Rs. 4,800,000 and the increase in earning of internal income by Rs. 14,005,572.

In analysing the financial result of the year under review and the 02 preceding years, a financial surplus had been resulted in all the 03 years. The contribution of the institute amounted to Rs.45,666,590 in the year 2016 after adjusting the depreciation for employees' gratuity and non-current assets to the financial result had been grown continuously and it had become Rs. 79,111,897 in the year 2018.

3. Operational Review

3.1 Uneconomical Transactions

Audit Observation -----	Comments of the Management -----	Recommendation -----
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Action had not been taken to obtain an amount of USD 24,633 (Rs.3,824,679) received on 18 January 2018 to the General Treasury as a grant for the Post Graduate Institute of Humanities and Social Sciences by the Foundation Open Society Institute (FOSI) in Switzerland even by 07 March 2019, which was the date of audit. However, an amount of Rs. 2,164,103 had been incurred from the Institutional Fund for the research project during the year under review.

The releasing of money from the General Treasury was delayed due to the lengthy procedure that should be adopted to release the relevant money sent to the General Treasury for the Post Graduate Institute of Humanities and Social Sciences by the Foundation open Society Institute (FOSI) in Switzerland. Activities of the project were commenced by using money of the institute temporarily since the activities of the project should be commenced within the year 2018 and the relevant money had been received to the General Treasury.

Action should be taken to get funds expeditiously and institutional money should be properly managed and utilized.

3.2 Management Inefficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
Since monthly lease paid during the year under review for the van obtained by the institute under the lease method Was Rs. 2,392,920 and fuel expenses was Rs. 218,092 and the salary of the driver was Rs. 630,202 and overtime allowances was Rs. 128,059 and thereby, the total	Even though requests in writing were made to the Ministry of Finance for getting money for purchasing a van for this institution itself, the Ministry of Finance instructed to obtain a van under operating lease method in compliance with the Circulars issued by the Ministry of Finance. Therefore, the Institute was unable to use an alternate method to	Attention should be paid on the arrangement of vehicle facilities to the level adequate for the requirement of the Institute.

expense was Rs. 3,374,273 and the average expense per one running kilometre was a very high expense such as Rs. 217. obtain a van and further using an alternate method was not practical to the Institute due to various reasons.

3.3 Operational Inefficiencies

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
As per Section 6 (a) of the Ordinance of the Post Graduate Institute of Humanities and Social Sciences commenced under the Gazette No. 1843/45 of 03 January 2015, Post Graduate Degrees and diploma certificates that are to be awarded to Humanities and Social Science fields should be awarded on the recommendations of the University and with the consent of the Commission. The Post Graduate Institute of Humanities and Social Sciences conducts 40 Post Graduate Degree courses in the year under review without such an approval.	These Courses had been commenced before the establishment of the University Grants Commission. However, necessary arrangements are being made to inform the University Grants Commission about these courses as per the audit recommendation of the internal audit division of the University Grants Commission.	Action should be taken according to the laws, and rules that are existing.

3.4 Underutilization of Funds

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs. 368,125 received in the year 2017 for research activities by the India - Sri Lanka Foundation had not been utilized even by the end of the year under review.	Any expense had not been incurred as the process of collecting data had only been conducted during the year 2018. It is expected to incur the expenses related to those researches during the year 2019.	Funds should be efficiently utilized to accomplish the objectives.
(b) A provision amounting to Rs.4,565,701 made by Minnan Buddhist College China in the years 2017 and 2018 for developmental activities in the Institute had been invested in fixed deposits even by 07 March 2019 without utilizing the amount for the relevant function.	The relevant amount had been donated by Minnan Buddhist College China in two occasions for utilizing the amount for the developmental activities of the Institute. However, the Institute decided to use this money for commencing the construction of a hostel for students and it has been deiced to deposit the money in a fixed deposit until the fundamental activities of constructing the building are carried out.	Funds should be utilized for the accomplishment of the institutional objectives.

3.5 Delays in Projects or Capital Work

Audit Observation	Comments of the Management	Recommendation
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<p>Even though an amount of Rs.2,500,000 had been released to the Institute on 02 October 2018 out of provisions of Rs.4,000,000 made in the year 2018, construction of temporary vehicle park, drivers' room, store room and lavatory system had not been commenced even by the end of December 2018.</p>	<p>Even though these activities were planned to be conducted in the first half of the year 2018, estimate plans were provided by the Working Unit of the University of Peradeniya in the Month of October 2018 and procurement activities pertaining to these activities were conducted within the year 2018 itself by publishing a newspaper advertisement during the year 2018.</p>	<p>Funds should be efficiently utilized for the accomplishment of the institutional objectives.</p>

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Management	Recommendation
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<p>In terms of Paragraph 09 of the Management Audit Departmental Circular No. DMA/2009 (1) of 09 June 2009, every internal audit unit should prepare an internal audit report</p>	<p>Requests have already been made to the University Grants Commission to provide the staff required for the establishment of an Internal Audit Unit. However, the services had been obtained from the Internal Audit Division of the University of Peradeniya</p>	<p>An Internal Audit Unit should be expeditiously established as per the guidance of the National Audit</p>

per quarter for their institution and it should be submitted to the meeting of the Audit and Management Committee. Nevertheless, action had not been taken accordingly.

unsystematically up to the moment. It was not possible to function in compliance with the Management Circular No. DM/A/2009 (i) on a systematic Audit plan due to the non-provision of an adequate staff to them.

Act No. 18 of 2019.

4.2 Budgetary Control

Audit Observation -----	Comments of the Management -----	Recommendation -----
It was observed that the Budget had not been utilized as an effective instrument of control as a variation was observed in the range of 20 per cent up to 143 per cent for 13 Objects in the comparison of budgeted income and expenditure with actual income and expenditure.	It is difficult to forecast actual income and expenditure 100 per cent accurately as they depend on various factors. Generally, a certain level of over estimation is done for reducing the risk.	Realistic estimates should be prepared and function in accordance with such estimates.

4.3 Sustainable Developmental Goals

Audit Observation -----	Comments of the Management -----	Recommendation -----
As per the Circular issued by the Secretary of the Ministry of National Policies and Economic Affairs Bearing No. NP/SP/SDG/IA of 14 August 2017 and as per the UN 2030	Certain researches that are being conducted at present by the Institute comply with the sustainable developmental goals and this Institute had not prepared a	Should function in compliance with the relevant guidelines.

Agenda for Sustainable Development, the Post Graduate Institute for Humanities and Social Sciences had not taken action to identify / establish sustainable developmental goals and targets in relation to the year under review.

comprehensive plan in relation to the accomplishment of sustainable developmental goals and action will be taken to prepare such a plan in the future and to obtain the approval of the Board of Management to the plan.