

The Postgraduate Institute of Management Affiliated to the University of Sri Jayewardenepura

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Postgraduate Institute of Management Affiliated to the University of Sri Jayewardenepura had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Postgraduate Institute of Management Affiliated to the University of Sri Jayewardenepura as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Sri Lanka Accounting Standards

Fully depreciated assets costing Rs.40,285,117 which are being used at present had not been revalued and brought to account in terms of Sri Lanka Accounting Standard 18.

1:2:2 Accounting Deficiencies

Accounting deficiencies totalling Rs.9,423,670 revealed at a test check of the financial statements were brought to the notice of the Director of the Postgraduate Institute of Management by the Management Report dated 11 May 2011. The deficiencies had been rectified and the revised financial statements had been presented to audit on 23 June 2011. Arithmetical errors and copying errors in the Profit and Loss Appropriation Account for the year 2009 revealed and the negative balance of Rs.62,686,900 shown in the Profit and Loss Appropriation Account should have been Rs.73,940,864. Nevertheless it had been brought forward in the year under review as a negative balance of RS.44,904,308 without adducing reasons therefore.

1:2:3 Unidentified Expenditure

The accrued expenses of the year under review amounting to Rs.5,360,656 included an unidentified balance of Rs.690,668 and an unclassified accrued expenses of the International Branch amounting to Rs.3,743,217 brought forward from the year 2006.

1:2:4 Accounts Receivable and Payable

The following observations are made.

- (a) The sundry debtors of the Postgraduate Institute of Management remaining without being recovered over periods exceeding 05 years totalled Rs.161,338.
- (b) Action had not been taken even up to the end of the year under review to settle an advance of Rs.40,000 granted to a private institution in the year 2006.
- (c) Action had not been taken either to refund to the parties concerned or to credit to income the library deposits amounting to Rs.1,782,088 deposited with the Institute over a period exceeding 03 years.
- (d) Action had not been taken for the recovery of loans amounting to Rs.86,647 due from the employees who had left the Institute service in the year 2007 from the sureties or in any other manner.

1:2:5 Lack of Evidence for Audit

The following observations are made.

- (a) The title deed in support of the ownership of the land on which the Head Office is situated and shown at the value of Rs.5,000,000 in the financial statements, had not been furnished to audit.
- (b) The schedules with age analysis had not been furnished to audit for the accounts receivable amounting to Rs.2,911,912 and accounts payable amounting to Rs.11,603,217 of the International Branch while confirmation of balances had not been called for. The Director informed me that an investigation on the International Branch is in progress at present.
- (c) The difference between the physical identification of the assets of the closed down International Branch brought back to the country carried out by the Bursar on 04 May 2010 and the balance sheet value of those assets as at 31 December 2009 amounted to RS.15,207,356 and the reasons therefor had not been furnished.
- (d) Two employees who had served in the International Branch Office had been attached to the locally established International Branch with effect from 14 June 2010 as the Administrative Manager and the Machine Operator on the approval of

the Board of Management. Salaries amounting to Rs.924,700 had been paid to them up to November 2010. Their letters of appointment, letters of assignment of duties and the information on the duties performed by them had not been furnished to audit.

- (e) A list of names of the students registered for the courses conducted by the International Branch or a register showing the particulars of course fees charged had not been maintained. The Institute was not in possession of the information on the registered students and course fees further recoverable.

1:2:6 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of non – compliance with the following laws, rules, circulars and financial regulations were observed.

Reference to Regulations and Management Decisions -----	Non - compliance -----
(a) Payment of Gratuities Act, No. 12 of 1983 – Section 20	Even though the provisions for gratuity in respect of the staff in service of the Institute as at the end of the year 2010 should have been Rs.6,398,570, that balance according to the financial statements presented amounted to Rs.6,289,197. The difference of Rs.109,373 between the two balances had been due to the inclusion of the academic allowance for the computation of the gratuity though it should not be considered for that purpose.
(b) Financial Regulation 751 of the Democratic Socialist Republic of Sri Lanka	An Inventory Register had not been maintained.
(c) Postgraduate Institute of Management Ordinance No. 3 of 1985	Salaries amounting to Rs.366,712 had been paid up to 31 December 2010 to 02 employees of the Postgraduate Institute of Management released for service in the

University of Sri Jayewardenepura with effect from September 2010.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year under review had resulted in a surplus of Rs.59,078,631. Even though the corresponding surplus for the preceding year had been shown as Rs.8,773,078 it should be Rs.8,928,069. Accordingly the improvement of the financial results amounted to Rs.50,150,562. The increase of the investment income by a sum of Rs.3,687,520, the increase of income from the sale of publications by a sum of Rs.1,046,760, the increase of course fee income by a sum of Rs.33,896,755 and the decrease of the expenditure of the International Branch by a sum of Rs.75,294,561 had been the major factors affecting the improvement.

2:2 Operating Review

2:2:1 Management Inefficiencies

- (a) Since the closing down of the International Branch which prepared separate accounts up to 2009 its assets and liabilities had been posted to the ledger accounts of the Head Office without properly identifying them or being supported by verification.
- (b) The preparation of the Register of Fixed Assets of the Institute according to the prevailing laws, rules and regulations, training of officers in the maintenance of the Register of Assets and the revaluation of assets had been entrusted to an individual on 20 December 2008 for a sum of Rs.296,000 contrary to the provisions of Section 2:14:1 of the Procurement Manual. The payment had been made on 30 March 2009. A sum of Rs.45,000 had been paid to the same individual on 05 April 2011 for the updating of the Register of Fixed Assets and the physical verification. In view of the following reasons, the expenditure incurred on this matter was observed as a fruitless expenditure.
 - (i) The values appearing in the final accounts for the years 2009 and 2010 are not supported by the said Register of Fixed Assets.

- (ii) The officers had not been trained.
- (iii) Revalued amounts had not been brought to account.
- (c) The Institute had not taken action even up to the end of the year under review to transfer to a local Bank Account the balance of AED 3,000.31 lying since 31 August 2009 in the Bank Account No. 021-580683-001 maintained in Dubai for the International Branch since closed down.
- (d) The postgraduate courses on MBA 2007 and MBA 2008 of the International Branch had not been completed even by the end of the year under review.

2:2:2 Uneconomic Transactions

Liquidated damages amounting to Rs.244,264 had been paid for the delay in clearing the goods of the International Branch brought back to this country.

2:2:3 Transactions without Formal Authority

- (a) Fees for the certificate courses conducted by the International Branch had been determined and collected without the approval of the Board of Management.
- (b) The contract for the construction of a 900 square metre motor vehicle yard had been awarded to the lowest bidder for Rs.1,339,600 (excluding Value Added Tax) by calling for bids from 08 institutions deviating from the provisions of the Government Procurement Procedure and without preparing estimates. That contract had been further extended by another 1,000 square metres and a sum of Rs.2,881,400 (excluding Value Added Tax) had been paid thereon. This value exceeded the procurement limits of the Institute.

2:2:4 Matters of Contentious Nature

The cheque for AED 56,750 returned on 07 January 2010 by the landlord of the building in which the International Branch was maintained and the letter dated 28 August 2009 sent by him with regard to the takeover of assets valued at AED 4,100 left in the premises and the contents therein are problematic due to the following reasons.

- (a) Even though the letter was dated 28 August 2009, it referred to the cheque sent on 07 January 2010.

- (b) The returned cheque for AED 56,750 was not supported by the Bank Statements and the Register of Revalidation of Cheques.
- (c) The Institute had not maintained files and registers in support of the accuracy of payment of office rent and the rent payable.

3. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of the Postgraduate Institute of Management from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets
- (c) Hire of Lecture Halls
- (d) Maintenance of Inventory Registers
- (e) Purchase of Goods and Services
- (f) Printing of Courses Application Forms and Collections of Income