National Institute of Library and Information Science Affiliated to the University of Colombo - 2013

The audit of financial statements of the National Institute of Library and Information Science Affiliated to the University of Colombo for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Sub-section 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Adverse Opinion

Had the matters described in paragraph 2:2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2:1 Adverse Opinion

In my of opinion, because of the significance of the matters described in paragraph 2:2 of this report, the financial statements do not give a true and fair view of the financial position of the National Institute of Library and Information Sciences Affiliated to the University of Colombo as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2:2:1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Even though the policy relating to the accounting for a sum equivalent to the expenditure on courses as the course income had been changed to the accrual basis in the year under review, action had not been taken to treat the accounting policy as being used continuously and adjust effect on the net assets in the preceding periods to the opening balances of the respective components and for the disclosure the effect on the current or future periods.

(b) All prior year adjustments had been adjusted through a Ledger Account and the credit balance of Rs.878,009 had been adjusted to the accumulated deficit, but the nature of the error of the prior period and the amount to be rectified for the line items had not been disclosed in terms of paragraph 54 of the Sri Lanka Public Sector Accounting Standard No. 03.

2:2:2 Accounting Deficiencies

The following observations are made.

(a) In view of the following weaknesses in the accounting system, the establishing of the accuracy and balancing was questionable in audit.

  (i) Accounting for different amounts than the amounts appearing in the approved journal vouchers.

  (ii) Inclusion of only one note in the journal vouchers in the Ledger Accounts.

  (iii) Recording of data in the Ledger Accounts without preparing journal vouchers and without approval.

(iv) Differences existing between the balances in the Ledger Accounts and the balances in the financial statements.

Differences amounting to Rs.273,300 in 03 Current Assets Accounts, a difference of Rs.4,934 in one Current Liabilities Account, a difference of Rs.229,485 in 02 Expenditure Accounts and a difference of Rs.536,837 in 03 Net Assets Accounts were revealed in the reconciliation with journal vouchers during the course of audit test checks.

(b) It was observed during the course of audit test checks that the fees receivable from 09 Courses as at 31 December of the year under review had been understated by a sum of Rs.499,208 while the fees of 05 Courses received in advance had been overstated by a sum of Rs.374,812.

(c) Instead of adjusting for course fee income relating to the preceding year amounting to Rs.752,310 with retrospective effect, that had been brought to account as income of the year under review.

(d) Out of the courses income amounting to Rs.214,000 relating to the year under review a sum of Rs.84,000 had been brought to account as prior year adjustments and Rs.130,000 had been brought to account as course fees received in advance instead of being brought to account as income for the year.

(e) Even though a sum of Rs.200,000 charged from a foreign student had been correctly credited to the income, that had been brought to account as course fees received in advances as well. It was not possible to trace the Ledger Account to which the debit entry of that erroneous credit entry had been posted.

(f) The course fees amounting to Rs.82,500 receivable for two completed courses had not been brought to account.

(g) Even though fixed assets costing Rs.23,601,686 had been fully depreciated by the end of the year under review action had not been taken identify the present status of those assets and for ascertaining the future useful life of assets still being used, revalue them and to make adjustments in the accounts.

(h) The depreciation for the year under review amounting to Rs.321,175 on furniture, office equipment and a motor vehicle costing Rs.5,741,000 had not been brought to account.

2:2:3 Unreconciled Control Accounts

A reconciliation of the cost of two categories of fixed assets shown in the financial statements with relevant schedules of accumulated depreciation balances revealed a difference of Rs.4,155,083.

2:2:4 Lack of Evidence for Audit

Even though a sum of Rs.150,000 had been received in the year 2011 from the Ministry of Education for a 3 day Workshop, the documents and files in support of conducting the Workshop had not been furnished.

2:3 Accounts Receivable and Payable

The following observations are made.

(a) Library deposits amounting to Rs.122,500 obtained from 46 students from the year 2004 to the year 2009 had not been settled.

(b) Action had not been taken for the payment of the audit fees amounting to Rs.484,000 payable in respect of the years 2005, 2007, 2008 , 2009 and 2011.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, Management Decisions	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 168(1)	Even though receipts for cash received should be issued immediately, the receipt for the sum of Rs.220.000 credited direct to the Bank on 25 June 2013 had been issued only on 13 November 2013.
(ii) Financial Regulations 388(3) and 392(b) and (c)	A separate cheque had been issued for a cheque for Rs.30,000 misplaced due to dispatch by ordinary post without recording the note on cancellation in the cash book, Bank Reconciliation Statement and the counterfoil of the cheque.
(iii) Financial Regulation 395(h)	All activities relating to the preparation of the Bank Reconciliation Statement, depositing money in the Bank, writing of cheques and the maintenance of the cash book had been done by an officer recruited on assignment basis.

(iv)	Financial Regulation 388(1)	A Register had not been maintained for cheques sent by post.
(b)	Treasury Circular No. 1A1/2002/02 of 28 November 2002.	The Register for Computer Accessories and Software had not been maintained in the updated manner.
(c)	Public Finance Circular No. 364(3) of 30 September 2002.	The Value Added Tax amounting to Rs.63,390 paid in two instances had not been reported to the Commissioner General of Inland Revenue with copy to the Auditor General.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operation of the Institute for the year ended 31 December 2013 had resulted in a deficit of Rs.215,893 as compared with the corresponding deficit of Rs.1,796,280 for the preceding year. The financial results for the year under review as compared with the preceding year indicated an improvement of Rs.1,580,387 and the improvement had been mainly due to the increase of the total income of the Institute, inclusive of the Government grant by a sum of Rs.4,507,001 or 30 per cent.

4. Operating Review

4.1 Performance

The following observations are made.

(a) According to Section 4(b) of the National Institute Library and Information Services Ordinance No. 1 of 1999 and the Circular No. UGC/AC/PGSR/PG-Proposals dated 01 April 2013 of the University Grants Commission, the approval for the Courses conducted by the Institute should be obtained from the University Grants Commission. Nevertheless, the Institute had conducted 78 Courses comprising 31 Postgraduate Courses, 14 Diploma Courses and 33 Certificate Courses from the year 2003 up to the year 2013 without obtaining such approval. Out of the 1,588 students registered for those courses, certificates had been awarded to 751 students.

(b) According to the Second General Education Project of the World Bank, the primary objective of the Institute is the training of 300 to 400 Teacher Librarians annually. Nevertheless, in view of the total number of students registered during 13 years being only 1,588 and the issue of certificates only to 751 out of that, the objective of the establishment of the Institute had not been achieved.

(c) Five course conducted by the Institute for 149 registered students in 8 terms could not be conducted in the year 2013 as an adequate number of students had not been available, while 11 courses scheduled to be conducted according to the Action Plan for the year2013 had not been conducted. Similarly, the scheduled review of the syllabuses had also not been done as planned.

(d) Three year Bachelor of Philosophy/ Doctor of Philosophy 2007/2010 commenced in the year 2007 could not be completed even up to the end of the year 2013. Out of the 07 students registered for the course, only 02 students had been following the course by 31 December 2013. Two other postgraduate Degree Courses planned for completion in the year under review could not be completed. The periods of delay had been 08 months and 09 months.

(e) As the courses of the Institute are conducted after 4 o' clock in the evenings on week days and the weekends, and as such the assets including the lecture halls and other all other assets had been underutilized during the day time on weekdays.

(f) In the recovery of course fees, the fee for one course had been anti- recovered by Rs.18,000 while the fee of another course had been under- recovered by a sum of Rs.60,000.

4.2 Management inefficiencies

The following observations are made.

(a) The expenditure on the stationery and consumable gods of the Institute for the year under review amounted to Rs.525,985 and those had been purchased from petty cash or advances as and when required instead of procuring by calling for bids.

(b) The recurrent and capital grants received in 04 instances during the year under review had been posted in the cash book and the Ledger Accounts by giving reference to erroneous numbers without issuing receipts. Instances of receipts issued for cash received after delays and altering the serial order of receipts, posting of monthly total of the daily cash book in the main cash book instead of posting the daily totals of the daily cash book, lack of supervision of the cash book, unauthorized striking off and altering of figures were observed, thus indicating the unsatisfactory internal control of the financial control.

4.3 Uneconomic Transactions

A sum of Rs.2,700,000 received in the year 2003 from the Second General Education Project for the establishment of the Institute had been invested in three months fixed deposits over a number of years. As such the investment benefits that could have been obtained by the Institute had been deprived of.

4:4 Staff Administration

The approved staff as at 31 December 2013 had been 17 and 04 posts had been vacant. Instead of making arrangements for recruitment for those in accordance with the Scheme of Recruitment, the services of 3 persons recruited on the assignment basis had been obtained for 3 non-staff grade posts from the years 2007 and 2011.

05. Accountability and Good Governance

5.1 Action Plan

The Action Plan and the Performance Reports prepared year 2013 had been incomplete and irreconcilable. Even though the Institute has no powers to conduct courses for first degrees, that had been included in the Action Plan.

5.2 Budgetary Control

The following observations are made.

(a) The budgeted income statement, balance sheet and the cash flow statement had not been presented with the budget in terms of Guideline 5.2.1 of the Public Enterprises Guidelines on Good Governance No. PED/12 of 02 June 2003.

(b) Variances between the budgeted and the actual income and expenditure ranging from 13 per cent to 116 per cent including recurrent expenditure exceeding the approved provisions existed, thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

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

(a) Accounting
(b) Maintenance of Registers
(c) Financial Control
(d) Assets Control
(e) Stores Control
(f) Budgetary Control
(g) Advances Control
(h) Procurement Activities