

Postgraduate Institute of Science - 2013

The audit of financial statements of the Postgraduate Institute of Science for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, 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 Section 21 of the Ordinance published in the Gazette Extraordinary No. 909/13 dated 09 February 1996 and Sub-section 107(5) and Sections 108 and 111 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 Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of the 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Standards

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though sums of Rs.28,523 and Rs.17,950 had been shown as accrued expenses and examination expenses respectively in the financial statements for the year under review, sums of Rs.56,891 and Rs.241,754 respectively had been paid in the year 2014. As such the current liabilities had been understated by a sum of Rs.252,172 in the financial statements.
- (b) Even though a sum of Rs.490,798 had been shown in the comprehensive income statement as the income from the hire of motor vehicles, the total of the income received from the hire of the bus and the van of the Institute in the year under review amounted to Rs.1,031,311. As such income had been understated by a sum of Rs.540,513.
- (c) Even though the value of the laboratory teaching equipment and telephones and office equipment according to the Report of the Board of Survey amounted to Rs.85,619,179, a sum of Rs.26,887,075 had been shown in the financial statements as the book balance as at 31 December 2013.

2.3 Unreconciled Control Accounts

The unreconciled difference between the balances according to the accounts and the subsidiary records amounted to Rs.5,046,605. Details appear below.

Name of Account	Balance according to Account	Name of Subsidiary Record	Balance according to Subsidiary Record	Difference
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	Rs.		Rs.	Rs.
Interest Income	12,497,460	Cash Flow Statement	17,439,065	4,941,605
Research Grants	14,888,583	Note to the Accounts	14,993,583	105,000
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Total	27,386,043		32,432,648	5,046,605
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2.2.3 Lack of Evidence for Audit

The evidence shown against the following 03 items of account of the year under review totalling Rs.8,110,415 had not been furnished for audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Visiting Lecture Fees	3,613,332	Confirmations from Creditors
(b) Journal Vouchers	1,553,807	Absence of formal approval for Journal Vouchers
(c) Staff Loans	2,943,276	Abatement Register

	8,110,415	
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2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliance

(a) Postgraduate Institute of Science Ordinance

- (i) Ordinance of the Institute published in the Gazette Extraordinary No. 909/13 dated 09 February 1996 Section 4(k)

Three hundred and twenty four persons had been recruited as University Academic Staff for 10 Academic Boards without the concurrence of the University of Pearadeniya.

- (ii) Ordinance of the Institute published in the Gazette Extraordinary No. 909/13 dated 09 February 1996.
Section 11(h) and I
- Even though Ordinance of By-Laws should be formulated for carrying out the activities of the Institute, Ordinance of By-Laws had not been formulated even by 31 December 2013.
- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

- (i) Chapter IX Section 2.2
- Ten per cent of the co-ordination fees paid to the Lecturers of the University of Peradeniya serving in the short term courses of the Institute had not been credited to the Consolidated Fund. The sum so not credited amounted to Rs.92,392.
- (ii) Chapter XXIV Section 3.5
- The loan installments and interest for April and December of the year under review amounting to Rs.170,000 had not been recovered in the respective months.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- Financial Regulation 371
- (i) Advances totalling Rs.100,000 had been granted to 04 non-staff Grade Officers.
- (ii) Advances totalling Rs.2,006,869 which exceeded the specified limits had been granted in 36 instances.
- (iii) Advances amounting to Rs.189,074 which exceeded the requirements had been obtained in 12 instances during the year under review and had been refunded subsequently in cash.
- (d) Treasury Circular No. 1A1/2002/02 of 28 November 2002
Paragraph 02
- À Register of Computers, Accessories and Software had not been maintained.

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| (e) Public Enterprises Circular No. PED/12 of 02 June 2003
Sections 9.2 and 5.2.1 | Human Resources Planning had not been done. Even though a budgeted balance sheet should be furnished with the budget, a budgeted balance sheet had not been furnished for the year 2013. |
| (f) Public Administration Circular No. 6/2010 of 07 June 2010. | Even though transport allowance at Rs.12 per kilometer should be paid for petrol driven motor vehicles, payments had been made at Rs.25 and Rs.17 per kilometer. As such an overpayment of Rs.41,882 had been made to the officers. |

2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Contrary to the Public Enterprises Circular No. 95 of 14 June 1994 and the Ministry of Finance and Planning Circular No. PE1/174/1-2003 of 29 January 2003, the Institute had paid co-ordinating allowances amounting to Rs.924,018 and honorariums amounting to Rs.101,222 in 21 instances.
- (b) Even though the officers and employees of the Institute are not entitled to obtain the proficiency allowance and salary increments for second and third languages in terms of the provisions in the Public Administration and the Public Enterprises Circulars Nos.38/89, 38/89(I), 38/89(II) 38/89(III) and 29/98 dated 31 July 1989, 22 March 1990, 24 April 1991, 01 October 1995, and 28 April 1998 respectively, contrary to that language proficiency allowance totalling Rs.263,560 had been paid from the year 1997 up to May 2013.
- (c) Even though the Audit and Management Committee allowances can be paid only to the Executive Directors in terms of paragraph 02 of the Public Enterprises Circular No. PED/35 of 17 January 2006, contrary to that, a sum of Rs.92,400 had been paid in the year to 10 Secretaries of Academic Boards.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus for the year ended 31 December 2013 amounted to Rs.23,227,021 as compared with the corresponding surplus of Rs.22,990,263 for the preceding year, thus indicating an improvement of Rs.236,758 in the financial results.

4. Operating Review

4.1 Management inefficiencies

In terms of Section 4(1) of the Ordinance of the Institute published in the Gazette Extraordinary No. 909/13 of 09 February 1996, Fellowships, Bursaries, Medals and other Gifts should be awarded and exhibitions should be held. Nevertheless, none of those activities had been done in the year under review.

4.2 Transactions of Contentious Nature

The sum of Rs.321,450 received by the Institute on 25 July 2008 for the Forestry Management Research Project had been credited to a private account of the Professor in charge of the Project. In addition, sums of Rs.798,658 received for this Project in several instances had been invested in 04 fixed deposits in the private name of the Professor.

4.3 Delayed Projects

According to an agreement entered into between the Director of the Institute and the Director General of the Road Development Authority in August for the preparation of a report on the Environmental Impact Assessment for the construction of the Badulla – Kandy Highway, the relevant report should have been submitted to the Road Development Authority before 30 November 2012. Nevertheless, the report had not been submitted even by 31 March 2014, the date of audit. Nevertheless, payments in this connection amounting to Rs.3,175,980 had been made from the year 2012 to 31 December 2013.

4.4 Lands not acquired formally

Even though the value of the buildings of the Institute amounted to Rs.69,452,294, action had not been taken for the transfer of the land on 31 December 2013 which the building is situated owned by the University of Peradeniya to the Institute.

4.5 Personnel Administration

The approved cadre of the Postgraduate Institute stood at 38 and formal action had not been taken to fill 15 vacancies existing in the approved cadre.

5. Accountability and Good Governance

5.1 Corporate Plan

The information in the Corporate Plan had not been reconciled with the budgeted data and as such the Corporate Plan issued on 10 January 2010 was not observed as an effective Corporate Plan. According to the data on the year under review in the Corporate Plan in respect of 06 items totaled Rs.115,750,000 whereas according to the budgeted data those items totaled Rs.93,100,000 and a difference of RS.22,650,000 was observed.

5.2 Internal Audit

Even though the Internal Audit Programme on Accounts and Financial Control had been prepared for the year under review, an internal audit according to that had not been conducted.

5.3 Budgetary Control

The budget had not been made use of as an instrument to achieve the targets set for itself in year ahead for the achievement of the long term goals of the Institute as spelt out in the Corporate Plan as envisaged in Section 5.2.5 of the Circular No. PED/12 dated 02 June 2003 of the Director General of Public Enterprises.

6. Systems and Controls

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

- (a) Researches and Grants
- (b) Accounting
- (c) Maintenance of Registers
- (d) Stock Control
- (e) Staff Loans Administration