

Postgraduate Institute of Medicine affiliated to the University of Colombo - 2014

The audit of financial statements of the Postgraduate Institute of Medicine affiliated to the University of Colombo for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, 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 13(1) of the Finance Act, No.38 of 1971, Sub - section 107(5) of the Universities Act, No. 16 of 1978 and Section 20 of the Postgraduate Institute of Medicine Ordinance, No.01 of 1980 enacted in terms of Section 18 of the Universities Act. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of 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 Auditing 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 judgement, 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 Audit 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 this report, the financial statements give a true and fair view of the financial position of the Postgraduate Institute of Medicine affiliated to the University of Colombo as at 31 December 2014 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 Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) According to the Sri Lanka Public Sector Accounting Standard No.1, the ability to control the resources can be considered as assets on the inflow of future economic benefits to the Institute. Even though the ownership of the land with an extent of 2 roods and 1.5 perches where the main building of the Postgraduate Institute of Medicine was situated had not been vested with the Institute, it should be assessed and included in the financial statements. Nevertheless, action had not been taken accordingly.

(b) The statement of changes in equity of the Institute for the year under review had not been presented in accordance with the Format of the Sri Lanka Public Sector Accounting Standard No.01.

2.2.2 Accounting Policies

A specific accounting policy had not been adopted in respect of accounting of the investment income of the Norwegian Fund. An investment income amounting to Rs.1,359,621 received during the year under review had been credited to the Income Statement of the year while a sum of Rs.262,500 had been credited to the Norwegian Fund.

2.2.3 Accounting Deficiencies

Non- financial adjustments amounting to Rs.980,000 under operating activities and irrelevant funds out flow amounting to Rs.2,325 under financial activities of the preceding year had been erroneously shown in the cash flow statement.

2.2.4 Unreconciled Control Accounts

According to the financial statements, the value of fixed assets purchased under the Norwegian Fund Project had been Rs.18,707,876 while it was Rs.19,359,465 according to the records of the Institute, thus a difference of Rs.651,589 was observed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) In the payment for services obtained by the Institute, it was observed that a sum of Rs.109,239 had been retained for a period ranging from 2 to 6 years without being released the money retained in terms of the Agreement.
- (b) It was observed that a sum of Rs.8,405,718 receivable from the Ministry of Health and a State Bank remained without being recovered despite an elapse of 2 to 6 years.
- (c) Even though the loans granted to the employees by the Institute should be recovered before their retirement, action had not been taken since the year 2008 to recover a sum of Rs.7,514 receivable from two employees.

2.5 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non- compliance
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(a) Establishments Code for the University Grants Commission and Higher Education Institutions	
(i) Section 1.6 of Chapter X and Sections 3.3 and 3.5 of Chapter XX	Even though Administration Registers should be maintained, attendance, leave and movement registers of the Branch Library at Peradeniya had not been properly maintained. Further, Form General 125 had not been submitted in obtaining leave.
(ii) Sections 3.1 and 3.2 of Chapter XX	All officers in the academic and non-academic staff of the Institute should record the arrival and departure in the Attendance Register. Nevertheless, salaries and allowances totalling Rs.8,284,331 had been paid to 7 officers in the academic staff without the records on arrival and departure.
(iii) Section 27.4 of Part ii of Chapter X	Even though leave for study abroad should be approved, leave for study abroad obtained from 15 August 2013 up to 14 August 2014 had not been approved even by 20 May 2015.
(b) Treasury Circular No. IAI/2002/02 of 28 November 2002.	A Register of Fixed Assets on Computer Accessories and Software had not been maintained.

- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 394 (c) Six hundred and forty nine cancelled cheques valued at Rs.453,541 as at 31 December of the year under review had not been brought to revenue while that balance had been classified as current liabilities.
- (d) Treasury Circular No.PED/33 of 19 February 2002. A sum of Rs.95,883,688 had been invested without the prior approval of the Treasury.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2014 had been a deficit of Rs. 5,945,485 as against the surplus of Rs.10,331,319 for the preceding year. The increase of recurrent expenditure by a sum of Rs.23,326,529 had mainly attributed to the deterioration in the financial result by a sum of Rs.16,276,804 in the year under review as compared with the preceding year.

3.2 Underutilization of Funds

The following observations are made.

- (a) According to the financial statements, out of the funds amounting to Rs.7,168,536 granted for the Distance Education Reforms Project by the World Health Organization, a sum of Rs.4,982,803 had not been spent and it represented 69 per cent of funds granted. As such, it was observed that those funds had not been utilized to achieve the objectives of the Project.
- (b) The balance amounting to Rs.260,563 of the Development Fund of the Institute had been underutilized for over 7 years and the balance of Rs.4,000,000 of the Research and Publication Fund had been underutilized from the year 2013 up to 15 May 2015, the date of audit.

4. Operating Review

4.1 Idle and Underutilized Assets

The following observation is made.

Two Central Processing Units and three Monitors of computers and a Scanner of the Branch Library at Peradeniya had remained idle for 15 months without being used.

4.2 Library Administration

The following observations are made.

- (a) The medical officers who have the membership of the Branch Library at Peradeniya are allowed to lend the books for one day. Nevertheless, it was revealed in the physical

verification that 11 books valued at Rs.236,988 had not been returned within a period ranging from 1 to 14 months.

- (b) According to the audit test check, it was observed that 13 books valued at Rs.325,751 which were lent by the medical officers for a period of two years on a deposit of Rs.7,500 had not been returned even by 02 March 2015, the date of audit. Further, the period of delay ranged between 15 and 116 weeks.

4.3 Identified Losses

Three books received as donations to the Branch Library at Peradeniya, the value of which was not identified and a book valued at Rs.49,894 had misplaced.

4.4 Management Inefficiencies

The following observations are made.

- (a) Contributions in respect of 10 officers recruited on assignment basis and employed by the Institute from the year 2006 up to 2014 had not been paid to the Employees' Provident Fund of the University and to the Employees' Trust Fund. As such, a sum of Rs.1,762,353 comprising the employees' contribution of Rs.506,795 and surcharges amounting to Rs.748,763 and the surcharges of the Employees' Trust Fund amounting to Rs.506,795 had to be paid from the funds of the Institute.
- (b) Sixty five Postgraduate Courses had been conducted by the Institute during the year under review and an income totalling Rs.146,490,708 had been earned during the year under review itself. However, the Institute had not taken action to introduce an appropriate method for Cost Accounting with a view to evaluating the performance by considering the income and expenditure of each course.

5. Accountability and Good Governance

5.1 Budgetary Control

Even though the budget should be prepared for Postgraduate Courses conducted by the Institute and the relevant approval therefore should be obtained, out of the sample of 22 courses examined in audit, budgets of 11 courses had not been prepared. Further, the relevant approval for budgets of 10 courses prepared had not been obtained.

5. 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) Stock Control
- (b) Accounting
- (c) Library Administration
- (d) Financial Control