

Postgraduate Institute of Medicine - 2015

The audit of financial statements of the Postgraduate Institute of Medicine Affiliated to the University of Colombo for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 20 of the Postgraduate Institute of Medicine Ordinance No. 01 of 1980 enacted under Sub-section 107(5) and Section 18 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 Financial Statements

The 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 judgements, 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. In terms of the Section III of the Universities Act No.16 of 1978 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.

2. Financial statements

2.1 Opinion

In my opinion, 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 2015 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

Action had not been taken in terms of Sri Lanka Public Sector Accounting Standard 01 to assess and include the land in the financial statements where the Head Office of the Institute is situated .

2.2.2 Accounting Deficiencies

The following observations are made .

- (a) A cheque valued at Rs.22,814 received in the year 2014 had been banked without being accounting. The said cheque had been dishonoured and had not been accounted as well. Action had not been taken to recover from the relevant institution the sum of Rs.22,879 including the dishonoured cheque fee charged by the Bank.
- (b) A balance totalling Rs.668,600 which had been directly deposited to the Bank account of the institute had been shown in the financial statements as course fees of Rs.468,100, registration fees of Rs.55,000 and examination fees of Rs.145,500 without specifically being identified.

2.2.3 Lack of Evidence for Audit

The following observations are made.

- (a) The same person had been appointed on contract basis as the Director of 2 courses conducted by the Institute. According to the letter of appointment , 04 hours per day should be served for one post. Accordingly, 8 hours should be served to covering the duties of 2 posts. Therefore, the allowances of Rs.570,000 paid in the year of account could not be ensured due to arrival and departure had not been recorded to ensure that the service had been provided.
- (b) Adequate evidences had not been furnished to verify the balance under the trade and other receivables shown as adjustments of stock advances of Rs.523,345 since the year 2012.

2.2.4 Unexplained Differences

A difference amounting to Rs.78,285,350 was observed as compared with the balance in the Register of Fixed assets and the balance of property, plants and equipment as at the closing date of the year of accounts as per the financial statements.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though the construction defects existed during the relevant guarantee period as per the Agreement, relevant deductions should be made and such deductions should be given to the relevant contractors at the end of the defect liability period, from the contracts completed. However, the retention money totaling Rs.323,700 since 2 years to 6 years had not been settled and retained without doing any evaluation on construction defects.
- (b) Action had not been taken to recover the bank interests receivable amounting to Rs.43,479 outstanding from more than 08 years.

2.4 Transactions not supported by Adequate Authority

The following observations are made.

- (a) Sums of Rs.326,400 and Rs.416,600 had been paid in the years 2014 and 2015 respectively as allowances to a person who had been recruited on contract basis for a post of consultant since 02 May 2014 without an approval of the Department of Management Services, outside to the approved cadre of the institute.
- (b) Allowances amounting to Rs.126,000 had been paid in the year under review at Rs.2,000 each for a committee member without proper approval by conducting a meeting once in every month in establishing a committee named as Academic Affairs, Accreditation, Examination and Discipline for the re consideration of the decisions taken by the academic committee.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions.

Non-compliance

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- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 371

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- (I) Even though, the grant of Sub-imprest should be limited to Staff

Officers, Sub-impressts totalling Rs.13,601,387 had been granted to for 32 non- staff grade officers in 716 instances.

(II) Even though the Sub –impressts should be settled immediately after the completion of the relevant work, the settlement of advances totalling Rs.93,850 obtained in 4 instances had been delayed from 37 days to 187 days.

- (b) Sections 3.1 and 3.2 of Chapter XX of the Establishments Code of the Universities
Even though the arrival and departure of all officers of the academic and non-academic staff of the Postgraduate Institute of Medicine should be recorded ,the accuracy of the allowances amounting to Rs.12,845,878 could not be verified due to failure in confirming the arrival and departure of 07 officers of the academic staff.
- (c) Circular No.01/2015 dated 22 January 2015 of the University Grants Commission .
Even though travelling expenses and fuel allowances had been paid for the visiting lecturers, combined allowances had also been paid without proper approval.
- (d) Public Finance Circular No.03/2015 dated 14 July 2015
Even though the maximum value of advances could be granted at a time had been Rs.100,000 contrary to that, the advances totalling Rs.3,540,134 had been granted in 22 instances within a range of Rs.105,600 to Rs,464,954 .
- (e) Section 2.8.1 of the Government Procurement Guidelines of 2006.
Even though ,an expert of the relevant subject should be included in the technical evaluation committee appointed for bids evaluation, instances were observed in audit that the Institute had not taken action accordingly.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the Institute for the year ended 31 December 2015 had resulted in a surplus of Rs.19,042,290 as against the deficit of Rs.5,945,485 for the preceding year, thus indicating an increase of Rs.24,987,775 in the

financial result as compared with the preceding year. Even though the operating expenditure of the institute had increased by Rs.42,057,645 as compared with the preceding year, increase of Government grants for recurrent expenditure and other income by Rs.64,747,740 had mainly attributed for this increase.

In the analysis of financial results of the year under review and 04 preceding years, a deficit in the financial result had been shown in the years 2011 and 2014 but a financial surplus had been obtained in other years. The contribution of the Institute after adjusting the personal emoluments, taxes paid to the Government and depreciation on non-current assets had increased continuously since the year 2011 to the year 2014. The contributions of the Institute in the year 2014 and 2015 were Rs.111,439,585 and Rs.163,669,190 respectively, thus the contribution had increased by 47 per cent in the year under review as compared with the preceding year.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) Even though a sum of Rs.655,105 had been paid to 06 institutions for the servicing of machinery and equipment during the year of accounts, the relevant services had not been fulfilled.
- (b) Action had not been taken to vest the legal ownership of the land, 0.2074 hectares in extent belonging to the Ministry of Health which the Postgraduate Institute of Medicine was located.
- (c) Even though a sum of Rs.26,250 had been paid to a Private Company in the year 2014 for the assessment of lands and buildings, action had not been taken to get it done by the end of the year under review.
- (d) Even though the construction work of a building at a cost of Rs.159,925,550 had been completed, the Council had not got it approved by the Colombo Municipal Council.

4.2 Operating Activities

The following observations are made.

- (a) The Institute had given an opportunity to participate in the courses without paying registration fees of Rs.3,000 for 39 students in the year 2015 and 73 students in the year 2014 and the outstanding registration fees amounting to Rs.336,000 recoverable from that students had not been recovered by the end of the year of accounts.
- (b) An advance amounting to Rs.941,800 had been granted for an expenditure of Rs.364,080 due to grant of advances without preparing an estimate of expenditure.

- (c) The progress reports which ensured the activities of the Institute were carried out in accordance with the Strategic Plan and the Action Plan, had not been prepared.

4.3 **Idle and Underutilized Assets**

A grant amounting to Rs.3,913,400 received in the year 2013 for the research activities had not been utilized up to the end of the year of accounts.

4.4 **Procurement and Contract Procedure**

A loss amounting to Rs.527,820 had been sustained by the Institute due to the selection of the bidder who had quoted the second lowest prize of Rs.2,969,790 instead of selecting the bidder who had quoted the lowest bid of Rs.2,441,970 when calling for bids for the repairing of the latrine system in the second floor of the Head Office building. Even though it had been stated that the reason for the rejection of the lowest bid was that it had not previous experience, another contract valued at Rs.11,961,740 had been awarded to that institute after four months thereto.

4.5 **Identified Losses**

A sum totalling Rs.1,867,485 had been paid from the fund of the Institute as the contribution of Rs.793,778 and surcharge of Rs.1,073,707 recoverable from the relevant employees relevant to the above period due to non-payment of contributions to the Employee Provident Fund and the Employee Trust Fund for 12 employees who had been recruited on assignment basis from the year 2006 to the year 2014.

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.

Areas of Systems Control	Observations
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(a) Fixed Assets Control	(i) Failure to establish the ownership of the properties, weaknesses in the maintenance and disposal. (ii) Failure to update the records of inventories and non-reconciliation with Board of Survey Reports.
(b) Financial Control	Action not taken according to the limits of advances and non-settlement of advances within due periods.