

Postgraduate Institute of English – 2016

The audit of financial statements of the Postgraduate Institute of English for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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 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 misstatement 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. Section 111 of the Universities Act, No. 16 of 1978 gives 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 English as at 31 December 2016 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

Sri Lanka Public Sector Accounting Standard 07

Out of the fixed assets costing Rs.2,717,793 which were fully depreciated as at 01 January 2016 by the Institute, the fair value of assets still in use had not been disclosed in the accounts in terms of Paragraph 42 of the Standard.

2.2.2 Accounting Deficiencies

The land with an extent of 4.8 perches used by the Institute had not been assessed and brought to accounts.

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
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(a) Treasury Circular No.842 of 19 December 1978	A Register of Fixed Assets had not been maintained in terms of the circular.
(b) Section 3.1 of Chapter XX of the Establishments Code for Universities and Institutions of Higher Education.	A sum of Rs.6,789,525 had been paid as salaries and allowances in the year 2016 without establishing the arrival and departure of the academic staff of the Institute. The Director had informed the audit that the information was not available on the recording of the arrival and departure of the academic staff of any University functioned under the University Grants Commission.

- (c) Public Enterprises Circular No. PED 56 dated 27 January 2011 If there are any surplus funds in a certain Government institution, except the working capital requirement for the 06 ensuing months, the balance should be returned to the Treasury. Nevertheless, action had not been taken accordingly on a sum of Rs. 43,000,000 saved without being utilized from the money received as capital grants.
- (a) Circular No.959 of the University Grants Commission dated 12 July 2011 A Senior Lecturer who was directly appointed had been granted leave abroad for two years with pay from 17 February 2015 before the expiry of the period of probation on the approval of the Secretary to the University Grants Commission. A sum of Rs.3,476,662 had been paid to her as salaries and allowances from the date of approval for the leave abroad that is, 17 February 2015 up to the end of the year under review.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Institute for the year under review had been a surplus of Rs.3,530,242 as compared with the corresponding surplus of Rs.5,656,049 for the preceding year, thus indicating a deterioration of Rs.2,125,807 in the financial result in the year under review as compared with the preceding year . Decrease of Government recurrent grants by Rs.1,314,000 and the increase in annual depreciation by Rs.2,454,789 had been the main reason for the above deterioration.

In the analysis of financial results of the year under review and 04 preceding years, a surplus existed in the financial result from the year 2012 up to the year 2016. However, in readjusting the employees' remuneration and depreciation on the non-current assets to the above surplus, the contribution of the Institute of the year 2012 amounting to Rs.5,373,477 had continuously increased up to Rs.16,326,525 by the end of the year under review.

3.2 Working Capital Management

A balance over Rs.5 million was existed in the Bank Current Account for the capital expenditure throughout the year under review. Sums amounting to approximately Rs.20 million and Rs.15 million had remained idle in the Current Account during the period from March to May and November and December respectively of the year under review. Further, a sum of Rs.3 million had remained idle in the Current Account for the collection of students' income from September to December 2016. As such, lack of proper management in working capital was observed.

4. Operating Review

4.1 Procurement and Contract Procedure

According to the decision of the Cabinet of Ministers No. HE/ID/2013/32 of 07 May 2013, approval had been granted to select a contractor under the basis of “planning and construction” for the construction of an office building in respect of the Institute at a cost of Rs.93,000,000. The following observations are made in this connection.

- (a) The award of contract had been recommended on the basis of “planning and construction” as recommended only for very complicated constructions with high cost in terms of the Guideline SDB/04 of the Institute for Construction Training and Development deviating from the Procurement Guidelines, after being obtained bids from 05 bidders who were well experienced and successful in the field of Government constructions.
- (b) Accordingly, even though bid calling letters were sent to 05 bidders decided by the Institute, only 02 bidders out of them had submitted bids. One bid out of that had been rejected due to the breach of basic conditions and the bidder of Rs.115,009,469 submitted exceeding the cost approved by the Cabinet of Ministers by a sum of Rs.22,009,469 had been selected for the award of contract. As such, the economic gain and the value for money expected by the procurement process in terms of Guideline 1.2.1 of the Procurement Guidelines -2006 cannot be satisfied in audit.
- (c) In terms of Guideline 7.12.1 of the Procurement Guidelines, rejection of all bids received can be justified when lack of effective competition is clearly evident and if prices quoted by the single bidder are high, the TEC may negotiate with the bidder for a downward revision of prices in terms of Guideline 7.12.2.(b). Instead, several necessary items included in the estimated Bill of Quantities such as tiling had been removed from the Bill of Quantities without any explanation and entered into a contract agreement valued at Rs.89,777,279.
- (d) In terms of Guideline 2.8.1 of the Procurement Guidelines, the Technical Evaluation Committee appointed for bid evaluation should consist of a subject specialist. Nevertheless, a subject specialist on constructions had not been included in the Technical Evaluation Committee appointed for these constructions.
- (e) Even though the supervision thereof had been carried out part time by a lecturer of the University of Moratuwa on an allowance of Rs.25,000, it was observed that a proper supervision had not been carried out from the commencement up to the completion of this contract and payments had been certified without properly evaluating the work done physically.
- (f) An agreement had been entered into for completion of the construction project within 450 days from 27 October 2014, the date of commencement and to be completed before 16 January 2016. Nevertheless, this construction had been completed and handed over on 30 June 2016 due to the extension of duration without reasonable explanations.

4.2 Management Activities

A land belonging to the Open University of Sri Lanka with 15 perches for the building and 4.8 perches for roads and access areas had been given for the use of Institute in the year 2014 with the approval of the Board of Control while the value of this land had been brought to accounts under the lands of the Open University as well. Further, the University Grants Commission had informed the Institute that there were no legal provisions for transferring this land to the Institute.

4.3 Transactions of Contentious Nature

The Institute had obtained treasury grants during the preceding years exceeding the requirement for the purchase of furniture and equipment needed in respect of the new building while the balances had been utilized on short term investments and earned interest income therefrom. As such, a sum of Rs.43,000,000 had been invested by the end of the year under review.

4.4 Underutilization of Funds

Despite the non-utilization of entire grants received from the Treasury for the capital expenditure of the Institute, money had been obtained by requesting again for capital expenditure. As such, capital grants amounting to Rs.44,676,212 and Rs.35,829,434 had remained underutilized by the end of the year 2015 and the year under review respectively.

5. Accountability and Good Governance

5.1 Budgetary Control

Material variances between the budgeted and the actual income and expenditure were observed thus indicating that the budget had not been made use of as an effective instrument of management control.

5.2 Internal Audit

The Internal Audit had not been planned for minimizing deficiencies such as failure in taking action in terms of Financial Regulations and Circular instructions.

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.

Areas of Systems and Controls

Observations

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| (a) Financial Control | (i) Capital grants had not been properly utilized. |
| | (ii) Adequate balances that can be utilized on short term investments had remained idle in current accounts. |
| (b) Contract Administration | The contract for construction of office buildings had been carried out without proper supervision. |
| (c) Internal Audit | Failure in taking action to carry out the internal audit by the management for strengthening the internal control of the Institute. |