

## **Postgraduate Institute of Science – 2016**

---

The audit of financial statements of the Postgraduate Institute of Science affiliated to the university of Peradeniya 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 Section 21 of the Ordinance published in the Gazette Extraordinary No.909/13 of 09 February 1996 and 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. A detailed report in terms of Section 108(2) of the Universities Act was issued on 28 September 2017.

### **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).

### **1.4 Basis for Disclaimer of Opinion**

---

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, statement of financial performance and cash flow statement.

## **2. Financial Statements**

---

### **2.1 Disclaimer of Opinion**

---

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

## **2.2 Comments on Financial Statements**

-----

### **2.2.1 Accounting Policies**

-----

An Accounting Policy had not been identified by the Institute for bringing to account the Government Capital Grants totalling Rs.161,109,893 as at 31 December 2016, which had been received from several years, had been stated under grants rights.

### **2.2.2 Accounting Deficiencies**

-----

The following observations are made.

- (a) A sum of Rs.43,000,000 received from the Treasury and from the National Science Foundation to the Institute in the year under review had been stated as a sum of Rs.15,000,000 in the cash flow statement.
- (b) Refunding of fixed deposits amounting to Rs.28,000,000 had been stated as an outflow of money and a sum of Rs.19,683,278 invested had been stated as an inflow of money in the cash flow statement under investment activities in the year under review.
- (c) The increase of other assets including in the current assets amounting to Rs.27,271,367 had been stated as an inflow of money amounting to Rs.274,044 instead of stating as an outflow of money in the cash flow statement, according to the statement of financial position.
- (d) The credit balance amounting to Rs.1,276,498 in the Adjustment Account stated in the financial statements had been stated under operating activities in the cash flow statement by deducting from the profit.
- (e) The balance amounting to Rs.604,708 in the Savings Account initiated on 27 September 2016 as "P. Amarasinghe Scholarship Fund" in a State Bank and the balance amounting to Rs.428,651 as at 31 December 2016 in the Fixed Deposit initiated on 09 December 2013 had not been stated in the statement of financial position.

### **2.2.3 Lack of Evidence for Audit**

-----

Three Items of Accounts totalling Rs.80,141,656 could not be satisfactorily vouched or accepted due to non- submission of evidence for audit indicated against each item.

Item -----	Value ----- Rs.	Evidence not made Available -----
(a) Chemicals and other equipments purchased for research projects	3,121,993	Stock Books and Inventory Registers
(b) Nine short- term courses on GIS (Geographical Information Systems)	2,356,138	Information that the courses had been held
(c) The loss incurred to the Fund including the interest lost due to obtaining money anomalously by cancelling the fixed deposits.	74,663,525	Information on adjustments made to the financial statements relating to the relevant entire loss from the year 2008 to the year 2016.
	----- 80,141,656 =====	

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules and Regulations -----	Non- compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(i) Financial Regulation 135	Even though a method of control should be established for financial activities in a manner which enables an internal examination, all activities including keeping all the Certificates of Fixed Deposits under the name of Postgraduate Institute of Science under the custody, renewal of those certificates, encashing and preparing the relevant letters had been entrusted to a single officer from the year 2006 to the year 2016, not in manner which does not comply with the Financial Regulations.
(ii) Public Finance Circular No.03/2015 and dated 14 July 2015 issued as the Amendment to the Financial Regulation 371	<ul style="list-style-type: none"> <li>❖ Advances had been given ranging from a sum of Rs.114,000 to a sum of Rs.176,800 exceeding the limit amounting to Rs.100,000 in 07 instances.</li> <li>❖ Money had been given ranging from 12 per cent to 78 per cent more than the required amount in 13 instances and, that surplus money had been settled with a delay ranging from 07 days to 77 days.</li> </ul>

(iii) Financial Regulation 757(2)(b) Even though the Board of Survey had been appointed to conduct the Annual Board of Survey relating to the year 2016, the Board of Survey had not been completed.

(b) Establishments Code of University Grants Commission and the Higher Educational Institutions

-----  
Sections (ii) and (iii) of 6.2 of Chapter VIII of Part II

Even though a portion of 10 per cent of the amount of fees earned by a service performed in addition to his duty should be paid to the Higher Educational Institution to which he belongs to, action had not been taken to credit a sum of Rs.1,105,856, a portion of 10 per cent of the lecture fees amounting to Rs.11,058,565 paid to Visiting Lecturers in the year 2016 by the Postgraduate Institute of Science, to the Fund of the Institution.

(c) Section 8.2.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003 Even though surplus money could not be invested in Government Institutions without the approval of the Treasury, a sum of Rs.89,174,895 had been invested in fixed deposits by the Institute on the approval of the Board of Control contrary to it.

### **3. Financial Review**

#### **3.1 Financial Result**

-----  
According to the financial statements presented, the financial result for the year under review had resulted in a surplus of Rs.17,917,356 as compared with the corresponding surplus of Rs.26,173,802 for the preceding year. As such, a deterioration of Rs.8,256,446 was observed in the financial result. Even though the income from course fees had been increased by a sum of Rs.6,083,334 as compared with the preceding year, the increase of personnel emoluments by a sum of Rs.10,374,501 had been the main reason for this deterioration.

In analyzing financial results in the year under review and of 04 preceding years, a financial surplus had been indicated from the year 2012 to the year 2016 and after adjusting personnel emoluments and depreciation for non-current assets, the contribution of the Institute amounting to Rs.45,894,445 in the year 2012 had been continuously improved and had been a sum of Rs.85,828,243 in the year under review.

#### **4. Operating Review**

-----

##### **4.1 Performance**

-----

The main objectives of the Institute in terms of the Postgraduate Institute of Science Ordinance No.01 of 1996 are briefly given below.

- Making the Postgraduate Institute of Science an excellent institution.
- Creating an excellent institution for fundamental and compound scientific experiments.
- Propagating scientific information to the society.
- Making the Postgraduate Institute of Science into a most excellent Postgraduate Institute with high financial and administrative efficiency.

The following observations are made relating to the achievement of the above objectives.

- (a) Even though the Postgraduate Institute of Science had been targeted to achieve 14000<sup>th</sup> place in the year 2016 according to World University Gradings, it had achieved 17314<sup>th</sup> place in the relevant year.
- (b) Even though it had been targeted to introduce 04 new courses in the year under review, only 02 courses had been made operative in the year.

##### **4.2 Management Activities**

-----

Action had not been taken either to deploy for the relevant research activities or to settle to the relevant institutions the funds amounting to Rs.2,696,003 received in the preceding years from 07 institutions for research activities.

##### **4.3 Operating Activities**

-----

The following observations are made.

- (a) Sixty- seven Items of Stocks valued at Rs.362,884 purchased without identifying the requirements had not been used for over one year.
- (b) Chemicals valued at Rs.324,220 issued to the Institute by the University of Peradeniya had been issued directly to the laboratory without including into the Stock Books of the Institute.

##### **4.4 Underutilization of Funds**

-----

A sum of Rs.948,305 or an amount of 95 per cent of the sum of Rs.1,000,000 allocated for purchasing books and periodicals under the acquisition of assets in the year under review had not been utilized.

#### **4.5 Identified Losses**

-----

A sum of Rs.421,231 had been overpaid as the contribution of the Institute for the academic staff due to calculating by relating to the academic allowances in calculating the contribution of the Employee Provident Fund, the contribution of the Employees Trust Fund and gratuity contrary to Section 47 of Chapter V of the Employee Provident Fund Act, No.15 of 1958.

#### **4.6 Personnel Administration**

-----

It had been an encumbrance to execute the academic and institutional activities of the Institute in an optimum level due to 11 vacancies including a permanent Professor, two Visiting Professors, a Senior Lecturer and a Research Assistant relating to 09 posts of the academic staff of the Institute and also 07 posts of the non- academic staff remaining vacant.

### **5. Accountability and Good Governance**

-----

#### **5.1 Presentation of Financial Statements**

-----

The Certificate on Management's Responsibility on the Presentation of Financial Statements had not been included in the financial statements in terms of Section 3 of the Public Enterprises Circular No.PED/45 of 02 October 2007.

#### **5.2 Corporate Plan**

-----

Even though a copy of the updated Corporate Plan which had obtained the approval of the Board of Management in terms of Section 5.1.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003 should be furnished to the Auditor General, Treasury, Line Ministry and to the Department of Public Enterprises at least 15 days before the commencement of every year, action had not been taken accordingly.

#### **5.3 Internal Audit**

-----

The reports that should be furnished on target dates by every Internal Audit Unit for their Institution in terms of the Management Audit Circular No.DMA/2009(1) of 09 June 2009 had not been furnished to the Audit Committee.

#### **5.4 Audit Committees**

-----

Even though Audit and Management Committee Meetings should be held at least once for every 03 months in terms of the Management Audit Circular No.DMA/2009(1) of 09 June 2009, the Institute had conducted only 03 Audit and Management Committee Meetings in the year under review.

## 5.5 Budgetary Control

-----

As variances ranging from 23 per cent to 103 per cent between the budgeted income and expenditure and the actual income and expenditure of 23 items were observed , 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 from time to time. Special attention is needed in respect of the following areas of control.

### Areas of Systems and Controls

-----

### Observations

-----

(a)Accounting	-	Not following Sri Lanka Public Sector Accounting Standards.
(b)Utilization of Funds	-	Not completely utilizing provisioned funds.
(c)Control of Stocks and Inventory- Goods.		Not establishing and maintaining sufficient methods of control.
(d)Financial Management		(i) Anomalously nullifying the fixed deposits remained in the Institute and crediting money to private accounts due to not establishing sufficient methods of internal control.
		(ii)Not obtaining the approval of the Board of Control in each instances in investing money belonging to the Institute in fixed deposits and in refunding fixed deposits money.
		(iii) Not reporting the financial position of the Institute to the Board of Management.
		(iv) Investing funds contrary to laws and rules.