

Postgraduate Institute of Management - 2016

The audit of financial statements of the Postgraduate Institute of Management Affiliated to the University of Sri Jayawardhanapura 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) and Section 108 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 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 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 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 this report the financial statements give a true and fair view of the financial position of the Postgraduate Institute of Management 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

The following observations are made .

(a) Sri Lanka Public Sector Accounting Standard 02

Even though a sum of Rs. 21,203,277 should be adjusted as interest income on investment in the cash flow statement, it had been adjusted as Rs. 21,035,246 .

(b) Sri Lanka Public Sector Accounting Standard 07

- (i)** In view of the failure to review the useful life time of non-current assets annually, buildings and motor vehicles costing Rs. 66,555,653 fully depreciated even as at the end of the preceding year , remained in further use. As such, action had not been taken even in the year under review to revise the error made in the estimation of the rates of depreciation of those assets in terms of the Sri Lanka Public Sector Accounting Standard 03.
- (ii)** Even though it had been shown in terms of Paragraph 86 of the Standard the adequate disclosures should be made whilst the fixed assets are stated at the revaluation amount thereon , such disclosure had not been made in the Notes to the Accounts in connection with the plant, equipment, furniture, office equipment and the laboratory and teaching equipment , depreciation rates, and the value of the fully depreciated assets revalued on 01 April 2014 .

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) As a result of cancelled cheque amounted to Rs.28,536 shown in the year under review as issued but not presented cheque according to the bank reconciliation of the month of December in the year under review, the balance of the bank as per the cash book and the expenditure thereon had been shown understated and overstated respectively by the same amount .
- (b) Even though a sum of Rs.1,354,756 had been paid in the month of February 2017 as the Nations Building Tax for the course fees for the last quarter of the year 2016, it had not been shown as an accrued expense in the statement of financial position.
- (c) Forty five candidates had been registered for a 24 months graduate course commenced in July in the year under review. Thus the course fee of a candidate was Rs.575,000 , and though the revenue relating to the year under review was Rs.6,468,750 out of the total course fee income which should be charged from them amounting Rs.25,875,000 , it had been taken in to accounts as Rs.5,228,750 or understated by Rs.1,240,000.

2.3 Accounts Receivable and Payables

The following observations are made.

- (a) The Institution had established an International Branch in the city of Dubai in the year 2007 and even though that Branch had been closed down in September 2009 due to a fraud , despite a sum of Rs. 2,079,000 and Rs.11,603,217 remained from a long period as receivable and payable balances from that branch respectively, those balances are being brought forward in the statement of financial position without a settlement after carrying out an investigation with regard to that.
- (b) Actions had not been taken even up to the end of the year under review for the recovery of the provident fund loans and distress loans amounted to Rs.2,874,482 and Rs.1,018,174 respectively which was recoverable from the former Director and the Deputy Bursar of the Institute who had retired in the year 2012.

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

The following non-compliance were observed.

Reference to Laws, Rules and Regulations	Non- compliance
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(a) Establishments Code for the University Grants Commission and the Institutes of Higher Education	
(i) Section 5.1 (a) of Chapter 9 and Sections 21 .1 and 21. 3 of Chapter 7	In contrary to the provisions of the Establishments Code a sum of Rs.1,410,600 had been paid to the Senior Assistant Registrar and Grade 1 System Analyst of the Institute as overtime allowance and days pay allowance for the all holidays in the year.
(ii) Section 2. 1 of Chapter 26	Even though all the goods and the fixed assets belonging to the Institute should be verified by a Board of Survey appointed for that function, a survey had not been conducted for the year under review for the Library Books of the Institution.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
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Financial Regulations 135	A lady Computer Application Assistant had been employed to cover up the duties of the vacant Book Keeper post and all the duties such as maintaining of cash book, preparation of bank reconciliation, maintaining of primary books and ledger accounts, computer related accounting activities, preparation of vouchers and covering up the duties of the shroff had been handed over to that lady officer.
(c) Public Finance Circular No. 3/ 2015 of 14 July 2015	(i) Even though the ad hoc sub- imprest could be provided only to the staff officers, advances amounted to Rs.1,375,500 had been paid to the non- staff posts such as Stenographer, Driver and Machine Operator at 11 instances .

(ii) Beyond the maximum limit of the ad hoc sub- imprest amounting Rs.100,000 advances amounted to Rs. 1,282,000 had been given for the two officers at 07 instances .

(iii) Four Advances which had been issued relating to the year 2016 totalled to Rs.1,619,400 had not been settled even by the 31 December.

(d) Treasury Circular No. IAI/ 2002/ 02 of 28 November 2002

A Register of Fixed Assets had not been maintained in respect of the computer and computer accessories according to the format attached to Annexure No. 01 of the Circular.

(e) Sub-section iii of Section 4 of Nations Building Tax Act No. 9 of 2009

Even though the Nations Building Tax should be paid to the Department of Inland Revenue on or before the twentieth day of the month immediately succeeding the end of the relevant quarter , relevant tax had been paid with the delay from 5 days to 68 days.

(f) Board of Directors Decision No. 241.4 of 31 August 2015

Even though fuel allowance could be able to obtain for a day on which work for more than 08 hours per day, due to consideration of the working of less than 08 hours for the computation of fuel allowance payment , it was observed that the fuel allowance amounted to Rs.365,400 had been overpaid during the year.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the year under review amounted to a surplus of Rs.92,366,483 as compared with the corresponding surplus of Rs.40,054,887 for the preceding year, thus indicating an improvement of Rs.52,311,596 in the year under review as compared with the preceding year. Increase of the course fee income by Rs.93,969,136 as compared with the preceding year had been mainly attributed for this improvement .

In analyzing of the financial results for the year under review and the 4 preceding years indicated that despite a gradual deterioration shown in the financial result from the year 2012 to the year 2014 , it was being improved from the year 2015. The contribution for the year 2012 amounting to Rs.81,701,992 after making adjustments for the depreciation on the non-current assets, the employees' remuneration and the taxes paid to the Government, had increased up to Rs.188,991,962 by the year under review.

3.2 Unusual increase in expenditure

It was observed that an unusual improvement existed in below mentioned expenses compared with the expenses in the preceding year .

Expenditure	Year under review	Preceding Year	Difference	Percentage
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	Rs.	Rs.	Rs.	
Foreign Travel Expenses	1,477,653	357,752	1,119,901	313
Expenditure on Stationary	18,237,575	3,540,866	14,696,709	415
Entertainment Expenses	2,218,100	1,051,639	1,166,461	111
Bank Charges	1,002,702	210,229	792,473	377
Expenditure on Convocation	6,342,937	1,405,000	4,937,937	351

3.3 Legal Action Instituted Against by the Institute

The following observations are made.

- (a) The Institute had been named as an intermediary respondent in connection with the Case No. LT/ 01/ 05/ 2012 filed in the Labour Tribunal by the former Deputy Bursar of the Institute against the University Grants Commission and the University of Sri Jayawardhanapura.
- (b) Based on the recommendations of the Report of the Committee on Public Enterprises held in 2009 , the fraud amounted to Rs.58.2 million of the Dubai Branch of the Institute had been assigned to the Department of Criminal investigation on 29 March 2011. Even though the Department of Criminal Investigation had informed that the extracts of the relevant investigation had been sent to the Director on 16 June 2014 , as a result of actions not taken by the Institute in respect of that , filing of the case with regard to that had not been carried out even by the 30 November 2017.

4. Operating Review

4.1 Performances

The new degree courses named Master of Business Administration Custom and International Trade , Master of Executive Business and Master of Business (Qatar) had been commenced by the Institute in the year under review.

4.2 Management Activities

At the instances of a part of the value of a payments should be made in advance for the supply of goods or services instead of taking in to accounts considering separately as a part of expenditure or installment payment , those had been mentioned in Register of ad hoc Advances . Accordingly, a sum of Rs. 13,495,132 which was paid in 27 instances during the year under review had been mentioned in the Register of Ad hoc Advances in this manner.

4.3 Operating Activities

Seven local trainees and 02 officers from the Institute had participated for the Loan Management and Leaders Training Programme held in the University of Frankfurt school in Germany from 18 to 27 September in the year under review by the Institute . A sum of Rs. 4,025,000 had been received from 07 officers of external institutions per Rs. 575,000 from each and total expenditure incurred for this programme was Rs. 7,330,731 . Accordingly, it was observed that a loss of Rs. 3,305,731 had occurred to the Institute according to the accounts and the following matters were observed at the further examination in this regard.

- (i) The course had been planned for 04 days and the participants had spent extra 04 days in addition to the 02 days of departure and arrival . Accordingly, subsistence and incidental allowances had been paid to the two officers of the Institute for 04 extra days and accommodation fee also had been paid for all the trainees for those extra 4 days . According to that the Institute had spent a sum of Rs. 1,448,470 for that additional period.
- (ii) Even though in terms of Section 2 (c) of the Ministry of Finance Circular No. 01/ 2015/ 01 of 12 May 2015 the minimum number of required officers should be included in to that group for that duty to represent the Institute , it was considered as a controversy matter that the participation of 02 officers of the Institute to manage the group consisted with 07 trainees.
- (iii) Even though a sum of Rs. 575,000 had been charged from each officer from the officers participated as trainees from external institutions for the above course , the actual expenditure per a person amounted to Rs. 669,243 had to be incurred by the Institute. Accordingly, it had happened to incur an additional expenditure amounted to Rs. 659,701 by Rs. 94,243 for each trainee by the Institution.

4.4 Underutilization of Funds

Even though the monthly payments of the Institute had ranged between Rs. 13 million and Rs. 27 million as a result of non- forecasting of the expenses correctly, a considerable cash balance ranged between Rs. 17.03 million and Rs. 83.70 million had been maintained in the main current account throughout the year.

4.5 Staff Administration

The following observations are made.

- (a) Even though the approved cadre of the Institute should comprise from 48, there were vacancies in 08 posts in the Academic Staff and 12 posts in the Non-academic Staff as at 31 October 2017. Instead of filling the vacant posts , 11 officers had been deployed on contract basis on behalf of the approved staff. As a result of non- recruiting of sufficient experienced staff for the Accounts Division it had been impossible to maintain accounting books accurately by the Institute .
- (b) A Computer Application Assistant and a Driver had been recruited more than the approved cadre of the Institute and 04 persons had been recruited without a formal approval for the post of Programme Assistant which was not included in the approved cadre.

4.6 Vehicle Utilization

A pool vehicle had been continuously used by the Director of the Institute who had permissions to use an assigned vehicle or to have the transport allowance for the use of private vehicle for the duties in terms of University Grants Commission Circular No. 13/ 2015 of 18 September 2015. Accordingly, 1,813 liters of fuel valued at Rs.212,063 had been utilized without an approval more than the limit of the entitled amount of fuel for a month to that officer in terms of that Circular for the year under review .

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Annual Accounts had been presented on 04 April 2017 for the audit and those accounts had been revised again and presented on 31 October 2017 by the institute.

5.2 Internal Audit

The following observations are made.

- (a) Even though it had been indicated that the 11 items expected to be covered in the Internal Audit Plan prepared for the year under review, any audit activity had not been carried out during the year.
- (b) The Internal Audit of the Institute had been covered by the Internal Auditor of the University of Sri Jayawardhanapura . Even so sufficient officers for the covering up the audit activities of the Institute were not available in that Division in addition to the audit activities in the University and the staff was consisted only with Deputy Internal Auditor and 03 clerk grade officers.

5.3 Procurement Plan

Even though it had been planned a building to be built incurring Rs. 130 million for the Institute according to the Procurement Plan for the year under review , the construction activities had not been commenced even by the November 2017.

5.4 Budgetary Control

The following observations are made.

- (a) A variance of 48 per cent was observed between the budgeted income and the actual income of the year under review and variances ranging from 15 per cent to 135 per cent between the budgeted and actual expenditure in 07 Objects were observed . Accordingly , thus indicating that the budget had not been made use of as an effective instrument of management control.
- (b) Even though a sum of Rs. 301,230 had been incurred as rent and tax expenses in the year under review , budget provisions with regard to that had not been made available.

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

(a) Fixed Assets Management

Deficiencies in the revaluation of assets, disposal and deficiencies in accounting thereof and non-updating of Register of Fixed Assets .

(b) Accounting

Absence of appointing a qualified and sufficient staff for the preparation of accounts according to the Sri Lanka Public Sector Accounting Standards.

(c) Procurement

Actions not taken according to the Procurement Guideline , Procurement Hand Book and Procurement Plan.