

## **Postgraduate Institute of Agriculture – 2016**

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The audit of the financial statements of the Postgraduate Institute of Agriculture 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 20 of the Ordinance published in the Gazette Extraordinary No.68/11 of 26 December 1979 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.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 the financial statements. Section III 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

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### 2.1 Opinion

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In my opinion, the financial statements give a true and fair view of the financial position of the Postgraduate Institute of Agriculture 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

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#### 2.2.1 Sri Lanka Public Sector Accounting Standards

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##### Sri Lanka Public Sector Accounting Standard – 02

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- (a) The audit fees of Rs.221,145 paid during the year under review should have been disclosed as non-operating expenses after operating activities, action had not been taken accordingly.
- (b) Contrary to the paragraph 27 (b) of the standard, in computing the cash flows from operating activities in the year under review, depreciation of Rs.57,053 on Property, Plant and Equipment and the amortization of Rs.57,053, on government grants had been under stated.

#### 2.2.2 Lack of Evidence for audit

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Evidence indicated against the following 2 items of accounts totalling Rs.10,526,172 was not made available for audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Payments of 5 research projects	9,857,087	Financial and performance progress reports.
(b) Research allowances	669,085	Approval and progress reports.
Total	10,526,172	
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### 2.3 Accounts Payable

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The retention money in respect of purchases should be used for the rectification of defects of the item purchased if any defects or to refund that money to the relevant supplier, otherwise it should be credited to the fund of the institute in terms of Financial Regulation 571 (d). Nevertheless, action had not been taken accordingly in respect of retention money of Rs.839,707 relating to the period from 2012 to 2014 and settle it.

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

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The following non-compliance were observed.

<b>Reference to Laws, Rules, Regulations</b>	<b>Non-compliance</b>
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<p>(a) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka.</b></p> <hr/>	
Financial Regulation 103	Fixed assets valued at Rs.4,353,301 purchased in the years from 1993 to 1996 by 3 Research projects had not physically existed in the Institute and as such action had been taken to write off them from books but action had not been taken in respect of misplace of assets in terms of financial regulations.
<p>(b) <b>Establishments code for the University Grants Commission and Higher Education Institutions.</b></p> <hr/>	
Sections (ii) and (iii) of 6.2 of Chapter VIII of the part II	A part of 10 per cent of the fees earned from a service rendered in addition to the officers' normal duty, should be paid to the Higher Education Institute to which he belongs. However, action had not been taken to recover a sum of Rs.1,885,629 from the visiting lecture fees of Rs.18,856,295 paid during the year under review by the Postgraduate Institute of Agriculture at the time of making payments and credited to the Fund of the Institute.
<p>(c) Sections (b) of the Public Finance Circular No.3/2015 of 14 July 2015.</p>	Even though a sub-imprest of Rs.710,300 had been given to the Senior Assistant Bursar of the Faculty of Agriculture by the Research Facilities Fund for the research activities of the students in the year under review, action had not been taken to settle that advance.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operation of the Institute for the year under review had resulted in a surplus of Rs.38,996,509 as compared with the surplus of Rs.40,129,963 for the preceding year, thus indicating a deterioration of Rs.1,133,454 in the financial results for the year under review as compared with the preceding year. Even though the other earnings had increased by Rs.8,536,209 increase of personal emoluments and wages by Rs.5,778,728 and the bad debts being a sum of Rs.4,329,266 had mainly attributed to this deterioration.

In analyzing the financial results for the year under review and the preceding 4 years there were surpluses from the year 2012 to the year 2016. However, when the employees remuneration and depreciation on non-current assets had been re-adjusted to the financial results, the contribution of the Institute amounting to Rs.67,882,740 in the year 2012 had continuously improved up to Rs.112,221,681 in the year 2016.

### **4. Operating Review**

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#### **4.1 Performance**

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According to the Postgraduate Institute of Agriculture Ordinance No.09 of 1979 objectives of the Institute appear below in brief.

- Achieve and maintain high academic standards of Postgraduate Degrees.
- Instill high professional and leadership qualities among Postgraduates, inculcate high ethical and moral values in Postgraduates, Produce Postgraduates capable of adapting to the rapidly changing global developments.
- Promote basic and applied research of high standards and build capacity for innovative research among students.
- Ensure a cadre of competent and committed academic staff and an effective administrative, technical and support staff to organize and implement the academic progress, dissemination of knowledge, develop the library.
- Strengthening institutional capacity, achieve excellence as a centre for Postgraduate Education and Research in the Asian region and beyond.

The following observations are made in this connection.

- (a) Even though the number of foreign students registered is considered as a main criteria in International and Local ranking, only 3 foreign students had been registered during the past 4 years. However, in World ranking and local ranking in the year 2015 of the Postgraduate Institute of Agriculture had taken the 15,632<sup>nd</sup> place and the 27<sup>th</sup> place respectively and in the year 2016 it had taken 16,389<sup>th</sup> place and the 24<sup>th</sup> place respectively.

- (b) Even though, 179 students had been registered from the year 2010 to 2014 for the Master of Business Administration (MBA) course, only 7 students or 4 per cent of the registered students had successfully completed the course. Out of the students registered from the year 2010 to 2014 for M.Phil by course work and research course, none of them had completed the course.
- (c) The value of fixed deposits of the Postgraduate Institute of Agriculture from the year 2012 to 2016 had continuously been increased from Rs.85,279,284 to Rs.343,204,566. However, attention was not paid by the Institute to utilize those funds in an effective manner and it had been the reason for the continuous improvement of the balance of this fund.

## **4.2 Operating Activities**

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The following observations are made.

- (a) Fixed assets valued at Rs.1,499,081 and chemicals valued at Rs.348,560 purchased by the Institute had directly been issued to the Faculty of Agriculture without being inventoried in the books of the Institute.
- (b) Consumables valued at Rs.273,240 purchased by the Postgraduate Institute of Agriculture and given to 07 officers outside the Institute had not been received to the Institute and not entered in the stock books as well.

## **4.3 Transactions of contentious Nature**

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Air tickets and visa fees amounting to Rs.462,122 had been incurred from the fund of the Institute for the participation in a course by a female lecturer of another institution conducted in India relating to a course not conducted by the Institute.

## **4.4 Under utilization of funds**

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The following observations are made.

- (a) A sum of Rs.11,016,355 given by external institutions during the period 2009 to 2014 for research activities, had been invested in fixed deposits without being utilized for those research works.
- (b) A balance totalling Rs.690,482 in 3 bank accounts remained as at the end of the year had been idle for more than 5 years.
- (c) Out of a sum of Rs.10,000,000 given for the acquisition, improvement and rehabilitation of capital assets, only a sum of Rs.3,467,000 or 34.67 per cent had been utilized for the achievement of such objectives.

#### **4.5 Uneconomic Transactions**

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The following observations are made.

- (a) Out of the books purchased in the years 2013, 2014 and 2015 without proper estimate to be sold to the students who followed the Master of Businesses Administration (MBA) course, the value of books stored without being utilized as at 30 January 2017 amounted to Rs.1,342,539.
- (b) The value of various publications available at the stores of the Institute as at 30 January 2017, as a result of printing without being identified the requirement amounted to Rs.438,638.

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

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##### **5.1 Internal Audit**

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The preliminary reports, quarterly reports and the annual summary reports to be presented by all internal audit units at target dates in respect of their institutions had not been presented to the Audit Committee in terms of management audit Circular No.DMA/2009 (1) of 09 June 2009.

##### **5.2 Procurement Plan**

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Even though, a main procurement plan for the year under review had been prepared in accordance with the Government Procurement Guidelines, the anticipated procurement activities at least for a period of 3 years had not been included therein, and the procurement activities for the ensuing year had also not been stated in detail. Furthermore, the main Procurement Plan which should have been updated for not more than the period of 6 months had not been done.

##### **5.3 Budgetary Control**

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In terms of Paragraph 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the annual budget should be used as an instrument to achieve the long term objectives according to the Corporate Plan and to achieve the objectives at the beginning of the year. Nevertheless, only 52.14 per cent had been spent from the capital expenditure expected to be incurred in the year under review and as such the budget had not been used as an effective instrument of financial control.

## 6. **Systems and Controls**

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Weaknesses in systems and controls observed in audit had been brought to the attention of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

<b>Area of System and Control</b>	<b>Observations</b>
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(a) Financial Management	Grants and funds not utilized, enabling to achieve the relevant objectives.
(b) Maintenance of books and records	Non-maintenance of books and records in accordance with financial regulations and circulars.