

## **Postgraduate Institute of Humanities and Social Sciences - 2017**

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The audit of financial statements of the Post Graduate Institute of Humanities and Social Sciences affiliated to the University of Peradeniya, comprising the financial position as at 31 December 2017, 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 as at 31 December 2017, 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 the Gazette Extraordinary Notification No. 1843/ 45 published on 03 January 2014 and Section 21 of the Postgraduate Institute of Humanities and Social Sciences Ordinance No. 02 of 2013 and Sub-section 107 (5) and Sections 108 and 111 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 sent to the Director of the Institute on 09 May 2018.

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

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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.

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 Humanities and Social Sciences affiliated to the University of Peradeniya as at 31 December 2017 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 Accounting Deficiencies

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The following observations are made .

- (a) The interest income receivable with regard to the 30 days in the year under review amounting to Rs. 67,060 in relation to two fixed deposits which were started in a state bank had been taken in to accounts understated.
- (b) Even though it took more than a two year period after establishment of the Institute, actions had not been taken in respect of 46 fixed assets items belonging to the University of Peradeniya but already being used by the Institute to acquire the legal ownership, estimate and bring them in to accounts in proper manner.
- (c) The provision for gratuity had been understated by Rs. 100,000 as at 31 December 2017.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non - Compliance</b>
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<p>(a) Cabinet Decision No. අමස/ 99/ 0438/ 11/ 033 of 09 April 1999</p>	<p>Out of the amount of 25 per cent which is being credited by the Institute and the employee to the University Provident Fund, a 10 per cent should be credited to the Pension Fund. Nevertheless, in contrary to that, instructions had been given by the Circular No. 747 of 10 June 1999 issued by the University Grants Commission a portion 8/ 15 from the 15 per cent contribution credited to Provident Fund by the employer, to credit to the Pension Fund. Therefore, a sum of Rs. 80,647 or a portion of 02 per cent had been credited to the Pension Fund in</p>

less in the year 2017.

- (b) Section (ii) and (iii) of 6.2 of Chapter viii of Part II of the Establishments Code for the University Grants Commission and for Higher Education Institutions

Even though a portion of 10 per cent from the fee earned from the service rendered in addition to his normal duties should be paid to the Higher Education Institute where he belonged, out of the visiting lecture fees amounted to Rs. 24,022,907 paid during the year under review by the Post Graduate Institute Humanities and Social Sciences, actions had not been taken to deduct a sum of Rs. 2,402,290 and credit the University Fund at the time of making payments

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the results of the year under review amounted to a surplus of Rs. 22,108,617 as compared with the corresponding surplus of Rs. 11,646,388 for the preceding year. An improvement of Rs. 10,462,229 was observed in the financial results in the year under review as compared with the preceding year. Increase of the recurrent grant by Rs. 14,700,000 and earnings of internal income by Rs. 14,019,860 had been mainly attributed to the above improvement .

In analyzing of the financial results for the year under review and the preceding year a financial surplus had occurred in both 02 years. The contribution for the year 2016 amounting to Rs. 45,666,589 had increased to Rs. 66,863,593 by the year 2017 after making adjustments for the employees' remuneration and depreciation on the non-current assets to the financial results .

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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The following observations are made.

- (a) A Corporate Plan had not been prepared in terms of Section 5.1 of Public Enterprises Circular No. PED/ 12 of 02 June 2003 .

(b) Annual Action Plan had not been prepared in terms of Section 5.2 of Public Finance Circular 01/ 2014 of 17 February 2014 .

#### **4.1.2 Operations and Review**

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Eight hundred three students had been enrolled by the Institute for the academic year 2016 / 2017 and the number of students enrolled had fallen to 467 for the 2017 / 2018 academic year.

#### **4.2 Management Activities**

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The following observations are made.

(a) It had been entered in to an agreement by the Institute on 01 April 2017 for rent a vehicle to pay a sum of Rs. 199,410 monthly rent based on a minimum run of 3000 kilometers in a month without identifying the requirement. The minimum and maximum distance run of that motor vehicle during the 08 months period ranged between 904 kilometers and 2092 kilometers . Therefore, the average cost per kilometer of that had become a higher amount such as Rs. 201 . Further, a sum of Rs. 199,410 had been paid as monthly rental for the month of April 2017 but not used for running.

(b) The income and expenditure had been taken in to accounts by conducting the Post Graduate Courses in Humanities and Social Sciences through a Fund Account belonging to the Faculty of Arts of the University of Peradeniya before the year 2015. But the actions had not been taken to get the balance of Rs.13,231,258 remained in that Fund transferred to the Institute , even after the establishment of the Post Graduate Institute of Humanities and Social Sciences as a separate Institute from the date of 15 December 2015 .

#### **4.3 Staff Administration**

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Due to a vacancy in a permanent Technical Officer and a Management Assistant belonging to the cadre of the Institute, it had been a barrier to achieve the operational activities in optimal level.

#### **5. Sustainability Development**

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##### **5.1 Achievement of Sustainability Development Goals**

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All the government institutions should be functioned as per the United Nations year 2030 “Agenda” for Sustainable Development 2017 and the Post Graduate Institute of Humanities and Social Sciences had not aware of how to proceed with regard to the activities subject to it’s scope.

## **6. Accountability and Good Governance**

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### **6.1 Internal Audit**

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In terms of Paragraph 09 of Audit and Management Circular No. DMA/ 2009 (I) dated 09 June 2009 every Internal Audit Unit should prepare an Internal Audit Report once in a quarter for own Institute and place it before the Audit and Management Committee meeting, actions had not been taken accordingly.

### **6.2 Audit Committee**

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Even though the meetings of the Audit and Management Committee should be held at least once in a 3 months in terms of Paragraph 7.4.1 of the Public Enterprises Circular No. PED/ 12 of 02 June 2003, the Institute had held only two meetings in the year under review.

### **6.3 Budgetary Control**

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As it was observed the variances ranging from 20 per cent to 164 per cent between the budgeted income and expenditure as compared with actual income and expenditure in 18 objects thus indicating that the budget had not been made use of as an effective instrument of management control accordingly.

## **7. Systems and Controls**

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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 systems and controls.

<b>Area of Systems and Control</b>	<b>Observations</b>
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(a) Accounting	- Actions not taken to acquire the assets properly and bring them in to accounts. - Submission of budgeted information of the year 2016 for 04 revenue items.
(b) Contract Administration	Non - adhering to existing rules and regulations in respect of the construction contracts.