

Postgraduate Institute of Medicine – 2017

The audit of financial statements of the Postgraduate Institute of Medicine affiliated to the University of Colombo for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 Postgraduate Institute of Medicine Ordinance No. 01 of 1980 enacted under Sub-section 107(5) and Section 18 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 Financial Statements

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

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 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.

1.4 Basis for Qualified Opinion

My opinion is 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 Medicine affiliated to the University of Colombo 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.

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 7

Even though the property, plant and equipment costing Rs.200,803,590 had been fully depreciated as the useful life of non-current assets had not been reviewed annually in terms of paragraph 65 of the Standard, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the interest receivable for fixed deposits relating to the year 2017 had been Rs.4,185,734, it had been shown as Rs.4,242,400 in accounts. As such, the value of current assets and the value of interest income as at 31 December 2017 had been overstated by Rs.56,666.
- (b) The interest income amounting to Rs.136,690 received by cash during the year relating to fixed deposits of Rs.3,755,600 as at 31 December 2017, had been credited to the Gold Awards Fund Account instead of crediting to the income of the year. Moreover, the interest income of Rs.196,411 receivable for fixed deposits had not been brought to account.
- (c) Accumulated value amounting to Rs.34,474,459 of donations received from external parties had been indicated under equity instead of accounting as an income of the relevant period.

2.2.3 Unreconciled Control Accounts

According to financial statements, the cost of property, plant and equipment as at the end of the year under review amounted to Rs.930,158,256. However, according to the Register of Fixed Assets of the Institute, that value had been Rs.638,069,739, thus indicating a difference of Rs.292,088,517.

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following items of accounts had not been made available to Audit.

| Item of Accounts | Value Rs. | Evidence not made available |
|-----------------------------------|--------------|---|
| (a) Adjustments of stock advances | 523,345 | Age analysis and detailed schedules |
| (b) Research grants payable | 4,719,075 | |
| (c) Supervision charges payable | 2,151,006 | |
| (d) Charges Receivable | 48,456,455 | Age analysis and confirmation of balances |
| (e) Interest on investments | 15,604,602 | Detailed schedules |
| (f) Contracted Services | 1,296,000 | Proper written agreements |

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.183,874 recoverable from 03 employees of the Institute who had retired and gone on transfer to external institutions prior to the year 2008, had not been recovered even by 31 December 2017.
- (b) A total sum of Rs.2,597,375 comprising course fees amounting to Rs.915,750 brought forward since the year 2009, recoverable from the Ministry of Health and the rental amounting to Rs.1,681,625 recoverable for the year 2015/2016, had not been recovered even by July 2018.
- (c) Action had not been taken even in the year under review to settle the sundry creditors balance of Rs.3,906,266 older than 02 years, included in the financial statements.

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

The following non-compliances were observed.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non-compliance

(a) Public Finance Circular
No.03/2015 of 14 July 2015

(i) Even though, the granting of Sub-impresst should be limited only to Staff Officers, Sub-impressts had been granted in the year under review to Non-Staff Officers by the Institute in 877 instances.

(ii) Even though the Sub-impressts should be settled immediately after the completion of the relevant purpose, a period from 32 days to 155 days had lapsed for the settlement of Sub-impressts totalling Rs.1,274,190 granted in 32 instances in the year 2017.

(iii) Even though the maximum value of Sub-impressts that could be granted at a time is Rs.100,000, the Institute had granted Sub-impressts ranging from Rs.102,600 to Rs.291,000 in 16 instances in the year 2017.

(b) Public Enterprises Circular
No.PED/25 of 29 July 2004

A sum of Rs.75,000,000 had been invested in fixed deposits during the year under review without obtaining the approval of the Treasury.

(c) Public Enterprises Circular
No.PED/12 of 02 June 2003

Section 6.5.1

A draft Annual Report for the year 2017, had not been presented along with the financial statements.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2017 had been a surplus of Rs.106,242,686 as compared with the corresponding surplus of Rs.76,217,219 for the preceding year, thus indicating an improvement of Rs.30,025,467 in the financial result of the year under review as compared with the preceding year. Even though the operating expenditure of the Institute had increased by Rs.58,327,754 as compared with the preceding year, the increase in Government grants for recurrent expenditure by Rs.21,120,000 and other income by Rs.71,959,237 had mainly attributed to the above improvement.

An analysis of financial results of the year under review and 04 preceding years revealed a deficit of Rs.5,945,485 in the financial result of the year 2014, despite having obtained a surplus in other years. After readjusting the employees' remuneration, tax paid to the

Government and depreciation on non-current assets to the financial result, the contribution of the Institute which was Rs.105,259,530 in the year 2013, had continuously increased and become Rs.277,292,999 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

Even though a Corporate Plan had been prepared for a period of 05 years from the year 2015 to the year 2019, concurrently, an Action Plan had not been prepared for the year 2017.

4.2 Management Activities

The following observations are made.

- (a) Instead of taking action to fill vacancies in the post of Driver existed in the approved cadre of the Institute, two and three Drivers had been deployed in the service on temporary basis from January to May and from June to December of the year 2017 respectively by the Institute. Moreover, a total sum of Rs.1,828,692 had been paid to a private institution therefor.
- (b) The retention money of Rs.414,621 older than 02 years, had not been settled or taken into the income.

4.3 Idle and Underutilized Assets

The following observations are made.

- (a) The balance of the Endowment Fund shown in the financial statements as at the end of the year under review amounted to Rs.5,538,168 and the said balance comprised of balances of 24 Endowment Funds. However, those funds had not been utilized for the intended purpose.
- (b) A grant of Rs.3,913,400 received in the year 2013 for researches indicated under Funds in the financial statements, had not been utilized for research activities up to 31 December 2017 and as such, it was observed that the said amount had remained underutilized for about a period 05 years.

5. Achievement of Sustainable Development Goals and Targets

Every Government Institution should act in terms of the 2030 “Agenda” of the United Nations for Sustainable Development. However, the Postgraduate Institute of Medicine had not been aware of the manner in implementing the functions that come under its scope, relating to the year under review.

6. Accountability and Good Governance

6.1 Internal Audit

The Internal Audit Unit of the Colombo University had carried out internal audit of the Postgraduate Institute of Medicine as well. According to the Internal Audit Programme submitted for the year 2017, thirteen subjects of the Institute had been planned to be covered during the year. However, an audit query had been issued only on one subject out of those subjects. Accordingly, it was observed that an adequate internal audit of the Institute had not been carried out.

6.2 Budgetary Control

The following observations are made.

- (a) The actual expenditure of 11 items of expenditure shown under recurrent expenditure ranged between 24 per cent and 157 per cent exceeding the budgeted expenditure.
- (b) The expenditure of the budget estimated for workshops and lectures of the Institute had been Rs.1,000,000 and the actual expenditure thereof had been Rs.7,315,974 and as such, the estimated expenditure had exceeded by 632 per cent.
- (c) Even though expenditure amounting to Rs.369,502, Rs.1,559,042 and Rs.2,020,500 had been incurred for property loans, foreign travel and for graduation ceremonies respectively in the year 2017, provisions for this expenditure had not been allocated from the budget.

7. 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 Control | Observation |
|-------------------------|--|
| ----- | ----- |
| (a) Control of advances | Non-compliance with the limit of advances and failure to settle them on due period |
| (b) Management of funds | Failure to use funds for specified purposes |
| (c) Budgetary Control | Failure to review the budget from time to time and to make use of as an effective instrument of control. |
| (d) Action Plan | Failure in preparing a realistic Action Plan for the year under review. |