

Institute of Human Resource Advancement – 2017

The audit of financial statements of the Institute of Human Resource Advancement 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 Sub-section 108(1) of the Universities Act and Section 23 of the Institute of Human Resource Advancement Ordinance, No. 11 of 1979 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 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 the risks of material misstatement 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 the 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 Institute of Human Resource Advancement 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 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard 2

The value of library deposits amounting to Rs.1,838,400 as well was included in deposits of cash inflows of Rs.316,565 shown under changes in working capital in the cash flow statement. In these circumstances, that value had been readjusted in the changes in working capital as cash inflows of library deposits. As such, the net cash inflows had been overstated by that similar amount under operating activities.

2.2.2 Accounting Policies

An accounting policy had not been identified by the Institute to account and amortize computer software by identifying them as intangible assets. Even though they had been depreciated at the rate of 20 per cent annually under fixed assets, the percentage of depreciation had not been disclosed in the financial statements. However, as mentioned in the depreciation schedule, the depreciation relating to the year amounted to Rs.252,257. Nevertheless, that value had been shown as Rs.448,257 in the statement of financial performance.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though only a sum of Rs.7,473,859 had been spent out of capital grants for purchase of wooden furniture and office equipment, only a sum of Rs.7,607,891 had been credited to the Spent Capital Account from the Unspent Capital Account. As such, the spent Capital Account had been overstated by Rs.134,032.
- (b) According to the depreciation schedule, the value of depreciation for vehicles relating to the year amounted to Rs.2,949,375. Nevertheless, it had been shown as Rs.724,375 in the statement of financial performance.

- (c) Even though amortization cannot be computed for fully depreciated assets, the Institute had revalued the fully depreciated assets and amortization had been computed again on that revaluated amount.
- (d) Amortization had not been brought to account for two vehicles not fully depreciated by the year 2017.
- (e) Even though expenses amounting to Rs.1,557,168 relating to the year 2017 had been paid in the year 2018, this amount had not been identified as accrued expenses, thus overstating the surplus of the year by the said amount. As such, the amortization value and the balance of the Unspent Capital Account were inaccurate.

2.3 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
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(a) Sections 10 and 16 of the Employees' Provident Fund Act, No.15 of 1985 and Section 16 of the Employees' Trust Fund Act, No.46 of 1980	Contributions had not been paid on the due dates on behalf of the employees who are deployed in the service of the Institute. As such, the Institute had paid in the year under review a sum totalling Rs.8,982,751 as 8 per cent contribution and surcharge payable by the employee relating to preceding years.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 110	Even though a Register on Losses should be maintained, no such register had been maintained.
(ii) Financial Regulation 371 and Public Finance Circular No. 03/2015 of 14 July 2015	Even though the grant of sub-imprest should be limited to Staff Officers, a sub-imprest totalling Rs.2,905,666 had been granted in 179 instances to 14 Non-Staff Officers.
	- Even though sub-imprest should be settled immediately after the completion of the purpose for which it is granted, a period of 18 to 170 days had been delayed for settling sub-imprests totalling Rs.307,640 obtained in 24 instances.

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| (iii) Financial Regulations 751 and 757 | According to the Report on Boards of Survey relating to the year under review, it was observed that fixed assets valued at Rs.758,762 were not physically available in the Institute while 347 items of which the value had not been identified and not included in the Register of Fixed Assets, were physically available in the Institute. |
| (iv) Financial Regulation 756 (2) | The Annual Board of Survey Committee should consist of two members. However, according to the Survey Report on Computer Items, the survey had been carried out with the participation of only a single person. |
| (v) Financial Regulation 770 | Action had not been taken even up to 22 June 2018, the date of Audit, to dispose of 04 unserviceable articles valued at Rs.2,859,260 recommended to be disposed by the Annual Board of Survey in the years 2016 and 2017. |
| (c) Sections 3.1 and 3.2 of Chapter XX of the Universities Establishments Code | All academic and non- academic officers of the Institute should record the time of arrival and departure. However, salaries and allowances of Rs.36,786,564 had been paid to 10 officers of the academic staff, without confirming their arrival. |
| (d) Public Enterprises Circular No. PED/25 of 29 July 2004 | Approval of the Treasury had not been obtained for fixed deposits of Rs.155,451,216 existed in the year under review. |
| (e) Circular No.2004/გვ/01 of 26 January 2004 of the National Library and Documentation Services Board | A survey on library books valued at Rs.5,572,787 had not been conducted for the year ended 31 December 2017. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2017 was a surplus of Rs.42,996,700 and as compared with the corresponding surplus of Rs.61,576,424 for the preceding year, thus indicating a decline of Rs.18,579,724 in the financial result of the year under review as compared with the preceding year. The increase in the expenditure on salaries and allowances by Rs.25,094,713 as compared with the preceding year had mainly attributed to the above decline.

In analyzing the financial results of the year under review and 04 preceding years, the surplus of Rs.15,174,119 existed in the year 2013 had been Rs.42,996,700 by the year 2017 with fluctuations. However, after readjusting the employees' remuneration, depreciations and tax paid to the Government to the financial result which was Rs.49,810,791 in the year 2013, the contribution of the Institute had declined to Rs.47,458,572 by 5 per cent in the year 2014. Nevertheless, it had continuously improved since the year 2015 and it had improved to Rs.114,264,804 in the year under review.

4. Operating Review

4.1 Performance

4.1.1 Function and Review

The following observations are made.

- (a) The entire 45 courses conducted by the Institute consisted of 01 Undergraduate Course, 05 Postgraduate Courses, 07 Executive/Higher Courses, 10 Diploma Courses and 22 Certificate Courses. However, students had not been registered for 36 courses for the year 2017 while students had not been registered since 05 years for 11 courses out of them. Nevertheless, out of the 45 courses, 22 courses had been discontinued by the year under review and the Audit had been informed that those courses had been postponed until By-Laws and regulations are approved for the enrolment of students.
- (b) The number of students registered for the courses in the year 2017 had decreased by 3,816 as compared with the year 2016 and it represented a decrease of 52 per cent.
- (c) It was observed that there were 54 functions to be performed according to the Action Plan of the year under review and that there were 19 functions which could not be performed during the year.
- (d) Even though the Action Plan of the Institute had been prepared by including goals and strategies under 07 main objectives, the budget estimate had been indicated for strategies relating to only one objective. Budget estimates had not been indicated on the performance of other objectives.
- (e) The Human Resource Development Plan had not been prepared and presented along with the Annual Action Plan.
- (f) The progress reports presented by the Institute had not been prepared in accordance with the Action Plan and the period in which the functions were performed and the monies spent had not been mentioned therein. As such, it could not be confirmed whether the functions mentioned in the Action Plan were performed within the period and the limit of estimated expenditure planned.

4.2 Staff Administration

The number of posts in the approved cadre of the Institute stood at 98 while the actual cadre stood at 73. As such, the number of vacancies was 25. Twenty six employees, as 25 Programme Assistants and one Office Assistant had been deployed in service on contract basis in the year 2017 without permanent recruitment of officers for vacancies relevant to the posts of the approved cadre.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals and Targets

Every Government Institution should act in terms of Circular No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and 2030 “Agenda” of the United Nations on sustainable development. However, the Institute of Human Resource Advancement was not aware of the manner in which they should operate in respect of functions that come under their scope relating to the year under review.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the annual financial statements should be presented to the Auditor General within 60 days after the closure of the financial year. However, the financial statements relating to the year under review had been presented on 04 May 2018.

6.2 Procurement

The following observations are made.

- (a) In terms of paragraph 4.2.1 of the Government Procurement Guidelines of 2006, the procurement activities for the immediately succeeding year had not been prepared in detail in the Procurement Plan and the changes occurred in the Plan had not been reviewed and regularly updated as well.
- (b) Eight goods, works and services valued at Rs.13,635,350 included in the Procurement Plan had not been executed during the year under review and 12 activities valued at Rs.974,562 not included in the Procurement Plan had been executed.
- (c) A sum of Rs.3,444,809 had been spent exceeding the estimated value for two procurement activities included in the Procurement Plan and the variance therein was 134 per cent.

6.3 Budgetary Control

In comparison of the budgeted values with actual values in the year under review, the income had varied by Rs.72,363,395, that is by 44 per cent while the expenditure on other operations had varied by Rs.45,902,486, that is by 94 per cent.

6.4 Internal Audit

The Internal Audit Division of the Colombo University had carried out the internal audit of the Institute of Human Resource Advancement. According to the Internal Audit Programme presented relating to the year 2017, thirteen subjects of the Institute had been planned to be audited during the year 2017. Nevertheless, as only two subjects thereof had been audited, it was observed that an adequate internal audit had not been carried out in the Institute.

6.5 Unresolved Audit Paragraphs

The following observations are made.

- (a) Even though the Institute had commenced the Advanced Diploma Course in Media and Audio Visual Creations in the year 2014, no lecturers with expert knowledge were available in the Institute for conducting these courses. As such, students had not been enrolled for the said course after the year 2014.
- (b) A Laptop computer valued at Rs.69,900 belonging to the Institute used for the Awarding Ceremony of Diploma Certificates held on 01 June 2014 at the New Gallery in the University of Colombo, had been misplaced. Moreover, action had not been taken to hold a proper inquiry thereon and to recover the loss sustained by the Institute.
- (c) The land of 27.86 perches in extent on which the building constructed for the administration and academic purposes of the Institute is located, belongs to the University of Colombo and action had not been taken to vest the ownership of that land and account the value thereo

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 controls.

Areas of Systems and Controls

- (a) Budgetary Control
- (b) Management of Investments
- (c) Procurement
- (d) Control over Vehicles
- (e) Conducting of Courses

Observations

- Failure in using the budget as an effective instrument of control by reviewing it from time to time
- Failure in obtaining the Treasury approval for investments
- Non-maintenance of the Procurement Plan in an updated manner
- Failure in checking the fuel consumption, maintaining a Register including the details on vehicles, conducting a survey on vehicles and including information of running charts and monthly summary reports.
- Commencement of courses without approving By – Laws and regulations