

Postgraduate Institute of Medicine affiliated to the University of Colombo - 2019

1. Qualified Opinion

The audit of the financial statements of the Postgraduate Institute of Medicine affiliated to the University of Colombo for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 and sub section 108 (1) of the Universities Act and provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
The scope of the audit also extended to examine as far as possible, and as far as necessary the following;
- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non – Compliance with the Sri Lanka Public Sector Accounting Standards

The following observations are made.

Instance of the non-compliance with reference to the respective Standards	Comments of the Management	Recommendation
(a) According to the paragraph 70 of the Sri Lanka Public Sector Accounting Standards-01, the classifications of assets as per non- current assets and current assets etc are is required to be made in the financial statements. However, deposits aggregating Rs.265,500 made on the supply of services remained for over 05 years had been classified under the current assets.	Action will be taken to classify and show deposits made on supply of services under the non-current assets from 2020 onwards.	Need to be complied with accounting standards.
(b) The useful life of the non- current assets the Institute had not been reviewed annually, as required by the paragraph	It was noted to take necessary action in future in this regard.	Need to take action to comply with the accounting standards.

65 of the Sri Lanka Public Sector Accounting Standards-07. As a result, non-current assets valued at a cost of Rs.259,173,247 had been continued to be used, even though the values of the respective assets were totally depreciated. However, action had not been taken to rectify the above-mentioned estimation error, as per Sri Lanka Public Sector Accounting Standards-03.

- (c) A reliable estimation using actuarial techniques is required to be made for the measurement of post-retirement benefits of the employees, as per the paragraph 61 of the Sri Lanka Public Sector Accounting Standards-19. However, the provision for the retirement benefits of the employees had been made based on the last drawn salaries and the period of services of the respective employees, contrary to the requirements. Also, due to the fact that the retirement benefit was not calculated correctly according to the above policy followed by the institution for calculating the retirement benefit, the balance of provision for the retirement benefits as at 31 December of the year under review had been understated by Rs 15,555,439. Further, the cost of the retirement benefits had been shown understated by Rs. 10,141,760 in the Statement of Financial Performance.
- The provision for retirement benefits had been calculated in accurate manner to comply with the instructions issued by the University Grant Commission through the Circular No. 05/2019. However, action has been taken to make rectification adjustment entries as per the audit query as at 01 January 2020.
- Need to take action to comply with the accounting standards and calculate provisions accordingly.

1.6 Receivable and Payable Accounts

The following observations are made.

1.6.1 Advances

Audit Observation	Comments of the Management	Recommendation
(a) A properly forecasted budget estimation is required to be made to release advances. However, advances valued at Rs 931,700 in 41 instances had been refunded 100 per cent after the periods ranging from 05 days to 157 days Further, a sum of Rs 1,223,370 had been spent, out of the advances aggregating Rs 3,185,775 made 102 instances	All the advances had been made to meet the costs on conferences. These instances were related to the lesser attendance of the participators than estimated. Instruction were issued internally to settle the advances in an immediate manner.	The advances need to be issued on accurate estimates.
(b) Action had not been taken to recover the training courses income amounting to Rs 915,750 receivable since 2009 and building rents aggregating Rs. 1,681,625 for 2015 and 2016 from the Ministry of Health even at the end of the year under review.	Even though the several reminders had been issued, there was no positive response received from the said Ministry. Arrangements have been taken to inform this matter to the board of management of the Institute for decision making purpose.	Action should be taken to recover the dues in an immediate manner.

1.7 Non – Compliance with Laws, Rules , Regulations and Management Decisions etc.,

The following observations are made.

Reference to the laws, rules and regulations	Instances of Non-compliance	Comments of the Management	Recommendation
(a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 371	Advances had been made to non-staff grade officers in 931 instances and it has been spent 30 days to 146 days to	Some of the examinations of the Post Graduate Medical Institute are required to be held in the outside	Need to comply with the financial regulations.

settle the advances Medical Faculties and amounting Rs.2,979,285. Teaching Hospitals. It is difficult to settle the advances in short period in these occasions. However, action had been taken to minimize the delays.

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| (b) | Public Finance Circular No.05/2016 of 31 March 2016 | The board of surveys are required to be completed by 17 March of the following year. However, the report of the board of survey for 2019 had not been completed and presented for audit even as at 08 July 2020. | The board of surveys activities had been completed for 2019 at present and the reports could not be finalized as the offices were closed for over 03 months since 13 March 2020. The final report will be made available at the end of July 2020. | Need to comply with the instruction issued by the Circular. |
| (c) | Circular No.636 of 14 July 1995 of the University Grant Commission | Even though the results of the examinations are required to be released within 03 months, results of 04-degree programs held in 2019 had been released with delays in the period ranging from 02 weeks to 06 months. | Results were delayed due to delays in the evaluation of foreign doctors involved in the evaluation of answer sheets, the university strike and the busy schedule of assignment evaluation specialists for one course. | Need to comply with the instruction issued by the Circular. |

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 205,005,491 and corresponding surplus amounted to Rs.53,726,287 in the previous year, thus observed that an improvement of Rs.151,279,204 of the financial results. The increase of government grants and revenue generated during the year under review had influenced mainly for the above-mentioned improvement.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) It was observed that the stock of 10 inventory items valued at Rs. 592,894 as at 14 February 2020 had remained unused for the intended purpose even after lapse of the period ranging from 11 months to 05 years from the date of purchased, thus indicated that the procuring and retaining of unnecessary inventory items in stock.	Accepted with the audit query. The delays in supply of stock will be occurred at the time of prevailing shortage of items in the market. Instructions had been issued to minimize the situations.	Action should be taken to establish an efficient procurement mechanism.
(b) According to the report of the board of survey carried out in 2018, it was revealed the excesses of 27 units of 09 stock items and shortages of 36 units of 25 stock items. However, no action had been taken on respective excesses and shortages at the time of audit inspection carried out on 15 June 2020.	Some of the items in the 2018 Board of Survey Report are not in place, some items are not in excess or deficient and some items are broken.	Rectification actions are required to be taken timely.

4. Accountability and Good Governance

4.1 Budgetary Controls

Audit Observation	Comments of the Management	Recommendation
It was observed that there was no interrelationship between the Procurement Budget and the Annual Budget Statement of the Institute. As a result, there is a variation amounting Rs. 616 million on the allocations made for the procurement of fixed assets and contract activities shown in the Procurement Budget and the Annual Budget Statement.	This variation is caused as a result of estimation done on the procurement of fixed assets in the Annual Budget, based on the allocations made by the General Treasury.	Action need to be done to maintain a budgetary control system in an accurate manner.