

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Post Graduate Institute of Humanities and Social Sciences for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be report to paliarment appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted the audit in accordance with the 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 determine 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 Institution’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 intend to liquidate the institution or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the institution’s financial reporting process.

As per the 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 auditor's 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 the 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 institution'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 auditor's 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 auditor's 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 whenever 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 Institution, 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 institution has performed according to its powers, functions and duties; and
- Whether the resources of the institution had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non- Compliance with Laws, Rules and Regulations

Reference to Laws, Rules and Regulations	Non-Compliance	Management comment	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial regulation 880	Although the Security was required to give under the Public Officers' Security Ordinance, the Security had not been obtained from 04 officers.	After issuing a circular by the Chief Accounting Officer of the Line Ministry, by determining the value of the security to be placed, the necessary steps will be taken to keep the security.	Financial regulations should be complied with.
(b) Circulars			
(i) Paragraph 09 of the Management Audit Department Circular No. DMA / 2009 (I) dated 09th June 2009	Although each internal audit unit was required to prepare an internal audit report quarterly on behalf of its institution and submit it to the Audit and Management Committee meeting, It had not been acted upon.	The Internal Audit Circular of the University Grants Commission No: 01/2019 dated 01 January 2019 states that the Internal Audit Division of the University of Peradeniya should carry out the audit activities and accordingly the internal units could be established in a formal manner and carry out audits once the required staff is attached.	The control system should be designed immediately to comply with the circular.

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| (ii) | Circular No. NP / SP / SDG / 17 dated 14th August 2017 issued by the Secretary of the Ministry of National Policies and Economic Affairs and United Nations 2030 “Agenda for Sustainable Development” | The Postgraduate Institute of Humanities and Social Science had not established and implemented the Sustainable Development Goals and Objectives by the end of the year under review. | The draft plan on Sustainable Development Objectives was presented to the Management Committee meeting on 31st December 2019 and the Director was informed to submit it back to the Board of Management with the changes identified therein. The institute is currently working on this. | Circulars should be followed. |
| (c) | Guideline 5 of the Code of Guidelines on Ethics and Academic Responsibilities of the University Academic Staff of the University Grants Commission No. 9/4 dated 09 April 2015. | An adequate internal control system had not been maintained to disclose the Dual Relationship with Students and staff and to prevent adverse effects on quality control by this. | The institute is currently complying with the guidelines on ethics and academic responsibility implemented by the University of Peradeniya. All these activities are expected to take place in the year 2021. | A controlling system should be established and maintained in accordance with internal guidelines. |
| (d) | Section 4.2 of the Government Procurement Guidelines 2006. | Although, a list of expected procurement activities for a period of at least 03 years should have been prepared, It had not been acted upon. | It is true that the institution had not prepared its expected procurement plan for the next three years. Relevant actions have been taken so far to prepare the desired procurement plan of the institution. | Government guidelines should be followed. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 43,123,612 and the corresponding surplus *in* the preceding year amounted to Rs. 48,993,216. Therefore a deterioration amounting to Rs. 5,869,604 of the financial result was observed. The deterioration was mainly due to a decline in internal income earnings by Rs. 4,539,070 and an increase in non-current assets depreciation by Rs. 1,056,139.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Issue	Management comment	Recommendation
(a) Out of the courses currently conducted by the Postgraduate Institute of Humanities and Social Sciences, 51 courses had not yet been approved by the University Grants Commission by the time of audit.	These courses were started and developed from time to time in the 1950s with the approval of the Senate and the Governing Council of the University of Peradeniya, prior to the establishment of the University Grants Commission. However, the relevant information has been sent to the University Grants Commission on December 4, 2019 to obtain the approval of the University Grants Commission for these courses.	Action should be taken to obtain the approval of the University Grants Commission immediately.
(b) Internal control was weakened due to the fact that the collection of money, acting as petty cash holder and entering of related transactions into the computer were done by a single officer.	As there is a shortage of permanent employees in the accounting sector, the same people have been assigned more responsible duties. As necessary actions are already being taken to recruit employees on permanent basis to the Postgraduate Institute of Humanities and Social Science, those employees will be employed in the Accounts Division in the future.	The duties of the Accounts Division should be divided and maintained so as to maintain optimal internal controls.
(c) Out of the amount allocated for the renovation of the building of the institution in the year 2018, Rs. 1,170,025 had been underutilized by the end of the year under review.	Payments have been made for the work completed by the relevant contractor and the necessary steps have already been taken to complete the remaining work of the contract as soon as possible and make payments.	Funds should be utilized efficiently for the work received.

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| (d) | The Contract signed for a sum of Rs. 4,666,843 for widening the access road of the institution and constructing a vehicle garage was scheduled to be completed by May 27, 2019 but had not been completed by December 31, 2020. | This situation was due to delays in payment of bills and delays in approving extra work. Action is being taken to finalize the contract as soon as possible. | The construction contract should be completed within the agreed period. |
| (e) | After enrolling students for the Master's Degree in Applied Economics and the Master's Degree in Economics for the academic year 2019/2020, 04 students were registered for those courses even after the completion of the first semester examination of the degree course. It was observed that this was a privilege granted to only one group in violation of the rules and guidelines of the institution and an injustice was done to those who wished to register for this. | It is true that at the request of the student, two applicants were admitted to the Master's Degree Course in Economics for the second semester of the 2019/2020 academic year. This admission was based on the recommendations for admission to the second semester by the Board of Studies in Economics and Management which considered the application of the relevant applicants, as they have required qualifications to be admitted for the second semester. | Students should not be registered in contrary to the rules and guidelines of the institution. Adequate publicity should be given after obtaining the approval of the relevant institutions and action should be taken to enroll the students in the course in a proper manner. |

3.2 Underutilization of funds

Audit Issue	Management comment	Recommendation
A sum of Rs. 6,699,195 received by the institute of Minan Buddhist Collage, China for the commencement of the construction of a hostel complex for foreign students in 2017, 2018 and 2019 remained idle by the date of audit.	The institute has decided to use this money to commence the construction of a student hostel building and is already working with the university administration and other relevant institutions regarding the construction of the building and its construction is expected to commence in the year 2021.	The attention should be paid on immediate utilization of funds.

3.3 Procurement Management

Audit Issue	Management comment	Recommendation
----- According to the Procurement Plan for the year 2019, Procurement activities of Rs. 04 million allocated for the rehabilitation of capital assets and Rs. 08 million for fixed assets had not been completed during the year under review.	----- The Institution's Master Procurement Plan has not been properly updated in the past. In terms of Section 4.2.1 (e) of the Government Procurement Guidelines, the Institution has already taken the necessary steps to update the institution's procurement plan within the relevant period and obtain the necessary approvals.	----- A procurement plan should be prepared and implemented based on priority.

3.4 Human Resource Management

Audit Issue	Management comment	Recommendation
----- At the end of the year under review, 13 actual staff members had been employing in 9 approved posts, but 16 were recruited on contract basis and Rs.6,067,134 was paid as salaries and allowances during the year under review.	----- The institute has identified new posts required by the institute in line with the increasing demand and accordingly requests have been made to the University Grants Commission and the Department of Management Services on several occasions for the approval of permanent staff posts. Until then, recruitment has been done on contract basis as per University Grants Commission Circular 04/2016.	----- Staff should be maintained within approved limits.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management comment	Recommendation
Budget was not used as an effective management control instrument As there was a variance ranging 20 percent to 85 percent in 12 items When comparing real income / expenditure with budgeted income / expenditure.	The main reason for this variance is the lack of opportunity to make some expenditure in the face of Covid 19 epidemic in the year 2020. Therefore, there is an increase or decrease in some actual expenditure in comparing budgeted expenditure with actual expenditure. Action will be taken in the future to make more accurate forecasts regarding these activities.	Realistic budget estimates must be prepared and adapted.