

## **1. Financial Statement**

### **1.1 qualified Opinion**

The audit of the financial statements of the Post Graduate Institute of Management affiliated to the University of Sri Jayawardanapura for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, statement of financial performance for the year then ended, statement of changes in net assets 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 section 12 of the National Audit Act No. 19 of 2018 and section 19 of the Postgraduate Institute of Management Regulation No. 3 of 1985 enacted under subsection 107 (5) and section 18 of the Universities Act No. 16 of 1978 and section 108 91) of the University Act. My comments and observations which I consider to 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 accompanying financial statements give a true and fair view of the financial position of the Post Graduate Institute of Management as at 31 December 2022, 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 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 qualified 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 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 intend to liquidate the University 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 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 institution.

#### **1.4 Responsibility of the Auditor on the audit of 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 Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism 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 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 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 institution;
- 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 Audit Observations on the Preparation of Financial statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

The Institute is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards**

The following observations are made.

| <b>Non Compliance with the Reference to the Particular Standard</b>   | <b>Comment of the Management</b>  | <b>Recommendation</b>  |
|---|---|--|
| (a) According to paragraph 39 of Sri Lanka Public Sector Accounting Standard 02, foreign exchange gains of Rs.14,729,762, which is not a cash inflow, had been shown as a cash inflow in the cash flow statement. | The cash flows statement will be corrected and presented with the financial statements for the year 2023. | Sri Lanka Public Sector Accounting Standards should be followed. |

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|---|--|---|
| <p>(b) Since useful life time of the non-current assets had not been reviewed annually in terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, property, plant and equipment costed for Rs. 45,671,870 were further in use despite being fully depreciated. As such, action had not been taken to revise the said estimated error in the financial statements in terms of Sri Lanka Public Sector Accounting Standard 03.</p> | <p>The assets revaluation activities has been started.</p> | <p>Sri Lanka Public Sector Accounting Standards should be followed.</p> |
|---|--|---|

### 1.5.3 Accounting Deficiencies

The following observations are made.

| <b>Audit Observation</b>  | <b>Comments of the Management</b>   | <b>Recommendation</b>  |
|---|---|--|
| <p>(a) Receivable income of Rs.3,850,000 in the year under review for postgraduate program of management was not accounted for.</p>   | <p>The course fee due in respect of the year under review should be corrected as Rs.4,050,000. Those money had not been accounted for because it was related to 15 students belonging to the inactive category who have stopped the following the course.</p> | <p>Course income for the year should be properly identified and accounted for.</p> |
| <p>(b) The depreciation for the year under review in relation to three categories of fixed assets was under calculated by Rs.422,543. As such, the profit of the year and value of fixed assets were overstated by that amount.</p> | <p>That action will be taken to retroactively adjust the under calculation of the depreciation of plant and machinery in the year 2023.</p>   | <p>Values in financial statements should be accurately presented.</p>              |

- (c) Refunded course fee income related to the previous year amounted to Rs.1,500,000 had been deducted from the income account of the year under review instead of being adjusted to the general reserve account. As such, the income of the year was understated by that amount. That action will be taken in the year 2023 to retroactively adjust the amount of Rs.1,500,000 refunded from EMBA 2021 course fees and re-present the accounts. Income should be accurately accounted for.
- (d) The under provision of depreciation amounting to Rs.131,375 in respect of previous years had been adjusted to the profit of the year under review instead of adjusting to the profit of the previous year. As such, the profit of the year was understated by that amount. That the under provision of depreciation will be retroactively adjusted and restated in the year 2023. Depreciation calculations should be done correctly.

#### 1.5.4 Unreconciled Control Accounts or Records

The following observations are made.

| Item                  | Value as Financial Statement (Rs.) | Value as per Corresponding Records (Rs.) | Difference (Rs) | Comments of the Management   | Recommendation                              |
|-----------------------|------------------------------------|--|-----------------|--|---|
| (a) Course Fee Income |                                    |  |                 |  |   |
| Local                 | 262,038,303                        | 246,129,783                              | 19,990,520      | That if adjustments are required to be made in the changes in values, the relevant measures for that will be taken in the year 2023. | The values in the relevant schedules should |

|     |                   |            |            |           |  |  |
|-----|-------------------|------------|------------|-----------|--|--|
|     | Foreign           | 21,870,340 | 25,952,030 | 4,081,690 | According to the reports received from Sampath Bank, the income of this course was determined according to the daily exchange rates and during the audit it was determined according to the monthly rates, accordingly, a difference of Rs.4,081,690 was remained. | be compared with the values in the financial statements.                 |
| (b) | Publication stock | 8,003,661  | 5,642,226  | 2,361,435 | Action will be taken to adjust retrospectively in the year 2023.   | The correct inventory value should be shown in the financial statements. |

### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following observations are made.

|     | <b>Reference to Laws, Rules Regulations etc.</b>   | <b>Non-compliance</b>   | <b>Comments of the Management</b>   | <b>Recommendation</b>                                |
|-----|--|---|---|--|
| (a) | Department of Management Services Circular No. 2/2020 dated 26 October 2020 and Department of Management | The institute had recruited officers on contract basis for 04 management consultant posts and 06 senior management consultant posts without getting | The Finance Circular dated 26 October 2020 has been issued for recruitment and filling up of vacancies in "Approved Posts" for the Public Sector. | The relevant circular provisions should be complied. |

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|---|---|--|
| <p>Services Letter<br/>No. approve the recruitment<br/>DMS/0011/PIM procedure.<br/>dated 23 August<br/>2017</p> |   | <p>"Approved posts" herein means the posts belonging to the permanent staff and recruited on contract basis as per the recruitment procedure approved by the Management Board.</p>   |
| <p>(b) University Grants Commission Institutional Circular No. 03/2022 dated 10 June 2022</p>                   | <p>Although circular instructions have been given not to submit applications for re-employment of retired government officials on contract basis till further notice, two officers who retired in the year 2021 were employed by extending the contract appointment even after the circular date.</p> | <p>The University Grants Commission has issued the Circular No. 03/2022 dated 25 May 2022, because of the letter of the Public Service Commission may be affected in recruiting retired government officials to the university system on contract basis. The circular provisions should be complied.</p> |

## 2. Financial Review

### 2.1. Financial Results

The operational result of the year under review had been a surplus of Rs. 160,203,167 and as compared with the corresponding surplus of Rs. 97,956,285 for the preceding year, thus indicating an improvement of Rs. 62,246,882 in the financial result. Increase in the course fee, executive development program income and other income had been the main reasons for the said improvement.

### 3. Operational Review

#### 3.1 Management Inefficiencies

The following observation is made.

| Audit Observation  | Comments of the Management  | Recommendation  |
|--|---|---|
| According to the approved cadre, two Deputy Bursars were employed on permanent and contract basis for the position of Deputy Bursar from May 2022 and salaries and allowances of Rs.1,818,960 were paid to the Deputy Bursar who were recruited on contract basis from May to December 2022. | Only one Bursar position was included in to the permanent cadre and until the end of 2021, the functions of that position were performed by a senior financial officer of the University system.<br>Due to the experience of that officer and expansion and diversification of the activities of the institute, it was decided that it would be appropriate to continue the service of the retired officer. Also, the duties of the retired Deputy Bursar appointed on contract basis were clearly separated and he will not be entitled to any benefits apart from the salary. | Recruitment should not be done beyond the approved cadre positions. |