

1.1 Qualified Opinion

The audit of the financial statements of the Institute of Human Resource Advancement 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 Sub-section 108(1) of the Universities Act and Section 17 of the Institute of Human Resource Advancement Ordinance, No. 1 of 2003 enacted under Sub-section 107 (5) and Section 18 of the Universities Act, No. 16 of 1978 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 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 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 intend 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 Responsibility 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 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 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 relevant Standard	Comments of the Management	Recommendation
According to the paragraph 65 of the Sri Lanka Public Sector Accounting Standard- 07 non-current assets valued at a cost of Rs.8,048,226 which remained in use had been totally depreciated, without taking action to review the value and remaining useful life of the assets and make accounting entries in correct manner.	The value and remaining useful life of the furniture, office equipment and electrical equipment had been reviewed and submitted for the approval of the Academic Syndicate held in February 2020. Out of that, the assets with useful life had been brought to the Register of Assets. According to the prevailing situation, the reviewing activities could not be completed, as planned. It is expected to complete the works in due course.	Need to be complied with accounting standards.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The monthly compensation allowance had not been correctly adjusted to calculate retirement benefit as per the Circular No.5/2019 of 04 June 2019 of the University Grant Commission and as a result, provisions for retirement benefit had been overstated and accounted by Rs.1,481,462.	Action will be taken to rectify it in the next year.	Action should be taken to calculate it correctly as per the circular instruction and account accordingly.
(b) Payables aggregating Rs. 3,422,067 on 02 construction contacts and 02 other buildings renovation works completed in 2019 had not been brought to account.	Out of that, a sum of Rs. 215,597 incurred for consultancy services had not been capitalized, as it is not recognized as a direct expense connected to increase the value of the asset. Further, the works valued at Rs. 310,722 had been completed only on 23 December 2019 and it was not treated as a capital work – in – progress. Materials valued at Rs.3,014,689 had been received in 2020 and it was treated as the expenses of the respective year.	The comments is not clear enough. Therefore, the amount payable should be recognized correctly and need to be accounted accordingly.

1.6 Accounts Receivables and Payables

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to recover a sum of Rs. 4,710,900 receivable from the Ministry of Transport and Civil Aviation on consultancy services provided for the National Railway System Project in 2015.	Accepted. Action will be taken show it in the financial statements as a receivable as instructed in the audits carried out in 2020.	Action should be taken to collect the income in periodic 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			
(i) Financial Regulation 371	The interim advances should be settled once the completion of the purpose which the advance obtained. However, advances aggregating Rs 4,789,867 obtained in 46 instances had been settled with delays in the period ranging from 30 days to 180 days.	The officers who obtained advances had been instructed to comply with the provisions made in the financial regulations. Further, the instructions had been issued to avoid such practices in future.	Need to comply with the financial regulations.
(ii) Financial Regulation 1646	The running charts of the motor vehicles had not been presented for audit.	It was noted to submit the monthly running charts to the Auditor General with the original copies through the Head of the Department	Need to comply with the financial regulations.
(b) The Establishment Code of the University. - Paragraph 07 of the Section IX	Payment of overtime should be calculated based on the basic salary of the officer. However, contrary to the requirement the overtime had been paid using the specific rates determined by the institutes itself. Therefore, overtime amounting to Rs. 140,977 had been overpaid during the first half year of 2019.	These rates are applied for the payment overtime for staff deployed for the income generating courses conducted by the Institute with the approval of Finance Committee and Academic Syndicate.	Need to comply with the Establishment Code of the University.

- (c) Public Finance Circular No.03/2015 of 14 July 2015
- An advance amounting to Rs. 152,280 had been made over the maximum limit amount of Rs. 100,000 which an advance could be granted once.
- An advance over the maximum limit of Rs 100,000 had been made only one instance and at present, all the financial advances are limited to Rs. 100,000.
- Need to comply with the circular instructions.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 13,850,428 and corresponding surplus amounted to Rs. 29,335,880 in the previous year, thus observed that a decrease of Rs 15,485,452 of the financial results. The increase of personal remuneration had influence mainly for the above-mentioned decline.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) Action had not been taken to dispose 11 items of stock valued at Rs. 138,887, as recommended by the board of survey carried out in 2018, even at the time of physical verification done in 2019.	Action will be taken to dispose such stocks in due course.	The recommendation made by the board of survey need to be implemented promptly.
(b) Action had not been taken to carry out the preliminary investigations on Laptop computer misplaced in 2014 in proper manner and record the losses thereon in the accounts as enable to recover such losses	The decisions in this regard had not been arrived up to now.	Investigations to recover the losses need to be completed promptly.

3.2 Operational Inefficiencies

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
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It was observed that 28 Degree, Postgraduate Degree, Diploma and Certificate programs had been implemented under 05 categories by the Institute in 2019 and out of those, no student had been registered for 13 programs. Further, student's registration for 04 programs had remained decline over the previous year.	This situation was arisen due to shortage of lecture halls and lecturers, strikes conducted by the unions and necessity of updating of courses etc.	Action should be taken to improve the operational performance of the Institute as enable to utilise the resources of the Institute in optimum manner.