

1.1 Opinion

The audit of the financial statements of the Postgraduate Institute of Humanities and Social Sciences 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, 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. My comments and observations which I consider should be submitted to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Postgraduate Institute of Humanities and Social Sciences as at 31 December 2019 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 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 unqualified 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 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 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 Scope of Audit (Auditor’s Responsibility on 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 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 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 board 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 Internal Control over the preparation of financial statements

Entities are 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management comment	Recommendation
(a) Section 5 of the Guidelines on Academic Staff Ethics and Academic Responsibilities, Approved at the Meeting of the University Grants Commission No. 914 dated 09 th April 2015	Even though adequate internal controls should be prepared and maintained to reveal dual relationships between students and academic staff or to prevent any adverse effects on quality control, had not been done accordingly.	The Academic Responsibility Guidelines have been identified in 2020 Action plan and the entity is expected to take all actions to meet this requirement in 2020.	Internal control systems should be established and maintained in accordance with the guidelines.
(b) Paragraph 09 of the Department of Management Audit Circular No. DMA / 2009 (I) dated 09 th June 2009	Even though Each Internal Audit Unit must submit an Internal Audit Report once in a quarter and it has to be presented for discussion at the audit and management committee, had not been submitted to the Audit and Management Committee.	The Internal Audit Circular of the University Grants Commission dated 01 st January 2019 stating that the audit work should be carried out by the Internal Audit Division of the University. Accordingly, I would like to inform you that once the required staff is attached, it will be possible to set up internal units and carry out audits.	The control system should be designed expeditiously to comply with the circular.
(c) Circular No. NP / SP / SDG / 17 dated 14th August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and United Nations 2030 “Agenda for Sustainable Development”	By the end of the year under review, the Postgraduate Institute of Humanities and Social Sciences had not been established the Sustainable Development objectives and Goals.	The draft plan on Sustainable Objectives was presented to the Management Committee meeting on 31 st December 2019 and the Director was informed to resubmit to the Board of Management with the changes identified therein. The institute is currently working on this.	The circular should be followed.

2. Financial Review

Financial Result

The operating result of the year under review amounted to a surplus of Rs.48,993,216 and the corresponding surplus in the preceding year amounted to Rs.32,384,639. Therefore, an improvement amounting to Rs.16,608,577 in the financial result was observed. The major reasons for the improvement are the increase in earning of internal income by Rs.27,911,368 and the decrease in research congress expenses by Rs. 668,391.

In analysing the financial result of the year under review and the 03 preceding years, a financial surplus had been resulted in all the 04 years. The contribution of the institute amounted to Rs.45, 666,590 in the year 2016 after adjusting the personal emoluments and the depreciation for non-current assets to the financial result had been grown continuously and it had become Rs.99,079,806 in the year 2019.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Institute was planned to utilize total sum of Rs.6,999,196 grant received in 2017 Rs.2,150,896 ,2018 Rs.2,414,805 and 2019 Rs.2,433,495 from Minan Buddhist College China for development activities. But it had not been utilized for relevant activities by the end of financial year under review and had invested in fixed deposits. Rs.368,125 received in 2017 from the Indo-Sri Lanka Foundation for research activities had not been utilized by the end of the year under review.	The institute has decided to use the funds to start construction of a student dormitory building, which is expected to begin construction in 2020. The research conducted jointly by the institute and the Indo-Sri Lanka Foundation carried out only the basic data collection process in 2019, so no expenditure was incurred in 2018 and 2019.	Attention should be paid on the utilization of funds expeditiously.

3.2 Underutilization of Funds

Audit Issue	Management Comment	Recommendation
(a) At the beginning of the year under review, 02 funds amounting to Rs.477,157 had not been utilized during the year.	During the year 2020, these funds will be used for transactions.	Funds should be used efficiently for the relevant purpose.

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| <p>(b) The balance of Rs.756,449 at the end of the year under review in the Preparation and Planning for Gender Analysis in Economics at UOP account has been transferred to the Software Purchase Account through a journal entry, but no action had been taken to purchase the relevant software during the year.</p> | <p>The amount allocated for the purchase of software has already been made to purchase the relevant software using the amount of Rs.756,449.</p> | <p>Funds should be used efficiently for the relevant purpose.</p> |
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3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
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<p>According to the annual stock verification as at 31st December 2019, 17 toners belonging to 04 models and 04 Riso Master Rolls valued at Rs.208,840 were identified as non-moving stocks. Also, 10 stocks including stationery worth Rs.477,522 were identified as slow moving stocks. Accordingly, it was observed that the existing internal control system regarding stocks was not effective.</p>	<p>Pay more attention in purchasing such items and make arrangements to purchase according to the annual requirements in the future.</p>	<p>The existing control system regarding stocks should be re-evaluated.</p>

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
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<p>(a) Although, the Procurement Plan for the year 2019, Rs.14 million had been allocated for Rehabilitation and upgrading capital assets and procurement of fixed assets, no money had been spent to carry out the relevant works during the year under review.</p>	<p>These requirements were later identified as procurement activities that did not need to be implemented very quickly by the institute. Necessary arrangements will be made to complete the work by the year 2020.</p>	<p>Procurement plan should be prepared and implemented according to the priority.</p>
<p>(b) The contract worth Rs.1,329,975 for widening the access road of the institute and construction of a garage, which was started on 01st January 2019, was scheduled to</p>	<p>Due to administrative problems in the works department of the University, the contractor's work evaluation activities were delayed and the rest of the work has already commenced.</p>	<p>Construction contract should be executed within the correct time frame.</p>

be completed by 27th May 2019, but had not been completed by 31st December 2019.

The intitute is working to complete this contract as soon as possible.

4. **Accountability and Good Governance**

Budgetary Control

Audit Issue	Management Comment	Recommendation
It was observed that comparing to budgeted and actual expenditure, 02 Expenditure votes shown 38 percent and 296 percent increase, while 15 expenditure votes decreased in the range of 20 per cent up to 94 per cent.	It is difficult to forecast expenditure 100 per cent accurately as various activities depend on various factors. . Therefore, there is an increase or decrease in some actual expenditure compared to budgeted expenditure and actual expenditure.	Realistic estimates should be prepared and adapted.