

1.1 Qualified Opinion

The audit of the financial statements of the Postgraduate Institute of Science 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 report to Parliament appear in this report.

In my opinion, except for 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 Postgraduate Institute of Science as at 31 December 2019, and of 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 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 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 Scope of Audit (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 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 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.

1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
The institute had not been recognized a proper accounting policy for accounting course fees and had not been established a relevant internal control system.	Course income for the current year, deferred income and accrued income were only taken into account.	An accounting policy should be established regarding course fees.

1.5.3

Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Distress Loan and Computer Loan balance of Rs.112, 988 of an officer that remained unrecovered during the year under review had been stated under the current assets.	This loan balance is belonged to a interdicted officer and will take action to recover from the provident fund in the future.	Action should be taken to recover the outstanding debt balance expeditiously.
(b) It was observed that the assets of the institution were not accurately represented while the recovery was uncertain; the sum of Rs.50,338,160 misappropriated during the period from the year 2008 to 2016 was recorded under non-current assets in the Financial Statements.	Necessary actions have been taken to file a case in the court to recover this amount which is related to financial misappropriation and the money has been accounted for under non-current assets on Confidence in receiving money.	Disciplinary action should be expedited and adjustments made to the accounts accordingly.
(c) The company had reported Rs.138,594 in research grant receipts and Rs.140,717 research grant payments less in cash flow statement during the year under review.	Agreed with the changes pointed out in the audit. However, those values are not quantitative.	Receipts and payments should be accurately recognized in the financial statements.

1.6 Accounts Receivable and Payable

Accounts Receivable

Audit Issue	Management Comment	Recommendation
(a) At the end of the year under review, no action had been taken to recover vehicle rental income of Rs.98,962 for a period exceeding 05 months to 08 months.	Take action to recover Rs.45,172 from the bench fees charged to students and recover the remaining amount expeditiously in the future.	Urgent action should be taken to recover the arrears.
(b) Out of the tuition fee income of Rs.15,428,800 identified in the financial statements for the year 2018, no amount was recovered during the year under review.	This tuition fee income could not be recovered due to unavoidable reasons including non-academic strike and will take action to recover them expeditiously in the future.	Action should be taken to recover the outstanding course fees expeditiously.

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

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
(a) Section (iii) of the Internal Audit Circular of the University Grants Commission No. 4/2019 dated 29 th July 2019.	The fixed deposit register was not maintained in accordance with the circular.	Arrangements have been made to prepare the fixed deposit register in accordance with the relevant circular.	Circulars should be followed.
(b) Section (V) of Finance Circular 04/2019 issued by the University Grants Commission	The institute had 33 fixed deposits by the end of 2019 and after the maturity of those deposits, no action had been taken to obtain quotations from other financial	From the year 2020, action will be taken to obtain quotations from major state banks for the maturity of fixed deposits.	Circulars should be followed.

institutions and invest in the highest yielding institution as per the circular.

2. Financial Review

Financial Results

The operations of the Institute for the year under review had resulted in a surplus of Rs.40,804,151 as compared with the corresponding surplus of Rs.76,889,677 for the preceding year, thus observing decrease in the financial results by Rs.36,085,526. This decline was mainly due to the increase in personal emoluments by Rs.11, 017,794 and decrease in the change in the exchange rate by Rs.26, 036,314.

In analysing financial results of the Institute of the year under review and 05 preceding years, a financial surplus could be observed from the year 2015 to 2019 and in taking into consideration the personal emoluments and depreciation for the non-current assets, the contribution of the Institute of Rs.96,051,739 in the year 2015 had continuously increased and it had turned out to be Rs.134,781,277 during the year under review.

3. Operating Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
The Rs.49,335 spent on publishing the first newspaper advertisement was a waste of money due to publishing newspaper advertisements on two occasions without due care and attention when inviting open bids to offer a cleaning contract for the year 2019.	Although the decision was taken at the Management committee meeting to call for bids for all three buildings at once, this situation arose due to the delay in opening the new building and this was an unexpected situation.	Procurement activities should be done with due care.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although Rs.10,000 was paid to the Sri Lanka Transport Board during the year under review for checking the fuel consumption of four vehicles owned by the institute by the end of 2019, the drivers had recorded the fuel consumption in the daily running charts at different rates than the rate approved by that inspection.	Drivers were informed to correct the relevant deviations.	Should comply with financial regulations and circulars.
(b) Although the Institute has appointed 06 officers including the stock keeper as the board of the survey for inventory verification for the year 2018 and submitted the survey reports to the audit, had not been confirmed that the survey was conducted according to the inventory documents.	Institute will apply the balancing notes as indicated by the audit from this year.	The Goods Survey and the Appointment of Board should be accordance with financial regulations.
(c) According to 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, the institute had not been acted upon.	Action will be taken to introduce 02 forms to be filled by students and Academic staff approved by the University council.	The relevant guidelines should be followed expeditiously.
(d) According to Criterion 7 of the Manual for Review of Undergraduate Study Programs of Sri Lankan Universities and Higher Education Institutions, released in December 2015 by the University Grants Commission, the institute should adopt various forms of	As the institute has only two full time permanent lecturers, it is difficult to check the answer scripts for the second time and we can facilitate our institute in case of any problem.	The relevant guidelines should be followed expeditiously.

internal second marking and it should be approved by the University Grants Commission and the council, but it had not been acted upon.

- | | | |
|---|--|--|
| <p>(e) Although the specific procedures and standards to be followed regarding the examination, planning, preparation of question papers, improvement, correction, grading and review of the examinations conducted by the institute are subject to the approval of the university council and the University Grants Commission, the institute had not been adopted such a procedure.</p> | <p>The duty of releasing the results is done very accurately and transparently. Also, all the courses conducted by the institute are approved by the University Grants Commission and the results are graded and reviewed to an accepted standard. However, we will expedite the takeover of the required documents under the Institute.</p> | <p>The relevant guidelines should be followed expeditiously.</p> |
| <p>(f) No action had been taken to prepare a marking scheme to check the answer scripts of the examinations conducted in connection with the courses conducted by the institute.</p> | <p>The Marking scheme and answer scripts are in the possession of the relevant examiners and immediate action is being taken to bring them under the purview of the Postgraduate Institute of Science.</p> | <p>The relevant guidelines should be followed expeditiously.</p> |

3.3 Operating Inefficiencies

<p>Audit Issue</p>	<p>Management Comment</p>	<p>Recommendation</p>
<p>(a) The institute had paid Rs.18,519,579 for 139 external lecturers for 11 postgraduate courses conducted in the year 2019, but no evaluation procedure was followed to ascertain whether the services of those lecturers were received properly from students.</p>	<p>In the future, students' evaluation certificates regarding the services of the respective lecturers will be obtained through a formal system and stored at this institution.</p>	<p>Action should be taken to establish a system for evaluating the services of visiting lecturers.</p>

- | | | | |
|-----|---|--|---|
| (b) | There was no formal procedure to appoint an Exam Evaluation Panel to evaluate the answer scripts of the examinations conducted by the institute and to securely store the examined answer scripts | Eleven Exam Evaluation Panels have been set up for the examinations conducted by the Postgraduate Institute of Science. The answer scripts are currently stored securely with the lecturers, but a system will be set up to securely store all the answer scripts within the institution itself in the future. | Arrangements should be made expeditiously for the storage of answer scripts. |
| (c) | 23 equipment worth Rs.562,027 purchased in 2019 under research grants had not been properly included in inventory registers. | Equipment purchases under the Research grant is recorded in a separate inventory register and a copy of the inventory register showing the assets mentioned is attached. | A formal record should be maintained in accordance with financial regulations and circulars. |
| (d) | Although Rs.813,649 was spent on installing 20 security cameras in 2017 and 2019, the storage time of those cameras was less than 21 days. | The hard disk capacity will be increased to 90 days of data storage in the future. | Productivity should be focused in procurement activities. |
| (e) | Sampling test done regarding the short courses/workshops conducted by the institute in the year 2019, the students who had completed 03 courses were awarded certificates relevant to those courses without charging the outstanding course fees of Rs.640,000. | Action will be taken in the future to recover the amount of Rs. 640,000 for the three courses. | Establish and maintain a formal internal control system for courses. |
| (f) | Institute maintains 24 fixed deposits in one of banks and the management has not focused on reducing the number of deposit certificates to suit the needs of the institution and minimizing the possibility of financial irregularities. | Action will be taken in the future regarding the relevant matters. | Actions should be taken to minimize the number of fixed deposits maintained in one bank as per the requirements of the institution. |

3.4 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
(a) The final balance of three research projects which had not been transacted during the year under review was Rs.227,714 and no action had been taken to settle the completed research activities or spend on research activities.	Take steps to settle the balance of research projects as soon as possible or transfer them to the Research Fund after obtaining proper approval in the future.	Funds should be utilized expeditiously.
(b) The Fund for the Research and Scholarship of Postgraduate Institute of Science had not incurred any expenses during the year under review and had a balance of Rs.8,038,458 at the end of the year.	Arrangements have been made to utilize this money.	Funds should be utilized expeditiously.

3.5 Idled or Underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Although 04 vehicles had been attached to the institution by the end of the year 2019, only one driver had been deployed in the service.so the daily activities of the institution had been severely hampered due to three of 04 vehicles of the Institute always remained underutilized.	We employ two drivers for four vehicles to carry out the activities of this institution very efficiently and, if necessary, we can recruit another driver in the future.	Action should be taken to fill the vacancies expeditiously.

3.6 Human Resource Management

Audit Issue	Management Comment	Recommendation
According to the approved cadre of the year 2017, there were 15 vacancies in 11 posts of approved and actual staff comparison and 07 additional officers in 03 posts. It has been more than two years since the cadre approved but the	Necessary arrangements have been made to update the cadre of the Institute.	Action should be taken expeditiously on Vacancies and excess posts.

management had not been paid attention to fill the vacancies expeditiously and to obtain approval for additional posts as required or to transfer those officers to other institutions.