Post Graduate Institute of Management affiliated to the University of Sri Jayawardanapura - 2020

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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 2020 comprising the statement of financial position , statement of financial performance for the year then ended, statement of changes in 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 Finance Act No. 38 of 1971. 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 affiliated to the University of Sri Jayawardanapura 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 Qualified Opinion

My opinion is qualified 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 Company'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 Company'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 Company 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 Post Graduate Institute of Management, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Post Graduate Institute of Management has complied with applicable written law, or other general or special directions issued by the governing body of the institution;

- Whether the Post Graduate Institute of Management has performed according to its powers, functions and duties; and

- Whether the resources of the Post Graduate Institute of Management 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. Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

	Non-compliance with reference to the respective Standards	Comments of the Management	Recommendation
(a)	Even though except the assets expected to be realized within 12 months after the date of reporting in accordance with paragraph 76 of Sri Lanka Public Sector Accounting Standards 01 should be classified as non-current	Relevant fixed deposits matured within 12 months and the decision on whether to convert them into cash or reinvest is taken into consideration by the cash flow requirements of the	Since fixed deposits have been remained without realization for more than 03 years, action should be taken to show those

	assets, 33 fixed deposits total valued for Rs. 212,231,785 have been reinvested annually for more than 03 years as at 31 December of the year under review had been shown under current assets instead of shown under non-current assets.	institution. The institution's new building under construction is fully funded through the realization of fixed deposits. The Institute believes that the classification of fixed deposits maturing in 12 months under current assets has been done in accordance with Sri Lanka Public Sector Accounting Standards No. 01 (76).	deposits under non-current assets.
(b)	Due to the calculation of employee benefits contrary to Sri Lanka Public Sector Accounting Standards 19, gratuity exceeds the allocated amount of Rs. 1,329,592 had to be paid for an officer who retired during the year under review.	Provisions for retirement gratuity have been made based on the equation method mentioned in Sri Lanka Accounting Standards No. 19. This method has been in use since 2012. Action will be taken to re-check the provisions made since 2012 as under provisions were revealed. After re-check, action will be taken to make provisions or to use some other alternative method in accordance with the Gratuity Payments Act.	The Sri Lanka public sector accounting standards should be complied and accurate provision should be made.

1.5.3 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	During the revaluation of the office equipment of the institute in the year 2018, the impairment value of those assets had been adjusted to the surplus of the revaluation of other assets without written off as an expense against the income. Due to this, the revaluation reserve was under stated by Rs. 4,568,126 in the financial statement.	Action will be taken to remove the relevant revaluation deficit from the revaluation surplus account and adjust it to the general reserve account in 2021.	Action should be taken to accurately adjust the impairment value caused to those assets in the revaluation.

(b)	At the time of correcting the error in non-capitalization of value of the fixed assets purchased during the year 2019 total amounted to Rs.722,373 had been accounted as income in the year under review instead of being adjusted to the general reserve account during the year under review. As such, the surplus for the year was over stated by that amount in the financial statements.	This accounting error was identified in the year ended 31 December 2019. As this error is not quantitative with compared to the total revenue and net assets of the institution, it has been corrected in the financial statements of the current year without make adjustment to the previous year and restate the financial statements of the previous year.	Purchased assets should be capitalized within the relevant year.
(c)	When calculating depreciation for the year under review, office fixtures, equipment and motor vehicles had been over depreciated exceeding the cost by Rs.359,537.	Action will be taken to correct this accounting error in 2021.	Depreciation should be accurately calculated and accounted for.

1.6 Accounts Payables and Receivables

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
Action had not been taken to recover the course fees due for 03 courses for more than 3 years amounting to Rs. 1,527,144.	Although students have been informed about this from time to time, arrangement had not been taken to make payments. Certificates will be issued to the relevant students only after all arrears have been recovered. Action will be taken in future not to allow students who have not paid the required fees to appear for the relevant examinations.	Action should be taken to recover due course fee.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
Section 89 of the Universities Act No. 16 of 1978	Those who have completed 65 years of age in the academic staff of the university should also be removed from the contribution of the University Provident Fund considering that they have reached retirement age. However, the institute continued to pay 15 percent contributions to the University Provident Fund including employer's contributions for 03 management consultants and a senior manager over the age of 65.	Non-academic staff who have completed 60 years of age and academic staff who have completed 65 years of age have been employed on assignment basis based on the need of the service. Contributions to the University Provident Fund will not be made to them from 01January 2021.	Act in accordance with the provisions of the Universities Act.

2. Financial Review

2.1. Financial Results

The operational result of the year under review had been a surplus of Rs. 173,569,994 and as compared with the corresponding surplus of Rs. 78,350,275 for the preceding year, thus indicating an improvement of Rs.95,219,719 in the financial result. Despite of decrease in the revenue, decrease in the expenditure had been the main reasons for the said improvement.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Out of the course fees due at the end of the year under review, a sum of Rs. 10,291,322 had been written off against the revenue but the approval of the Board of Management had not been taken in this regard.	As the duration of the relevant postgraduate course is two years, the due course fees will be written off at the end of that period. This written off was done in the current year subject to the covering approval of the Board of Management.	Written off should be made only with formal approval.

3.2. Operational Inefficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though the institute's canteen was leased out on a contract basis, based on the decision of the Board of Management a sum of Rs. 825,000 had been paid for 02 employees of the canteen for the period from May to December of the year under review based on the Covid-19 epidemic.	Students do not come to the institute as there are no physical lectures due to Covid-19. As a result, the canteen was making loss and its' owners had informed that canteen has to be closed due to this situation. This payment was made with the approval of the Board of Management to avoid any inconvenience to the staff members as well as the administrative activities of the institution due to non-operation of the canteen.	When the canteen was leased out on a contract basis, payments made to non-employees of the institution become problematic.
(b)	The percentage of those who did not complete their MBA degree on time of students enrolling ranged from 10 percent to 22 percent for the Master of Business Management	Due to the institution pay special attention on maintaining the quality of its postgraduate courses, some students may not be able to complete the course on time due to difficulty in reaching	Find out the reasons for not completing the degree and take appropriate action.

	(MBA) program and ranged from 80 percent to 95 percent for the Doctorate (PhD) degree courses.	the prescribed standard level or other personal reasons. The institute is focused on identifying students who do not complete the courses on time and formulating a program to address any difficulties they may face.	
(c)	Despite of availability of a system of incentives for the staff of the institute and a scheme of receiving benefits from the surplus money receiving from the executive development workshops, a sum of Rs. 3,223,883 had been spent to provide gifts voucher and food allowances from the Welfare Association Fund during the year under review.	Employee welfare includes all the facilities and benefits provided by the employer to provide relief to clients or for their comfort. Therefore, the Institute is in the view that all relevant expenditure falls within the scope of welfare. It should also be noted that these benefits fall within the scope of the welfare are enjoyed by the staff members from long time.	While there are incentive schemes and other benefits schemes, the provision of food allowances and gift vouchers has been problematic.

3.3 Human Resources Management

Audit Observation	Management 's Comment	Recommendation
The approved academic cadre and non-academic cadre of the institution were 44 and was recruited only 30 permanent cadre. 08 officers had been employed on contract basis for the vacant posts for many years.	Employees on contract basis were recruited with the approval of the Board of Management in accordance with the powers conferred by the Establishments Regulation. The contract basis is used to recruit the most suitable employees for the institute based on the service requirement.	Action should be taken to recruit employees with in the approved cadre.