

University of Kelaniya - 2015

The audit of financial statements of the University of Kelaniya for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in funds and cash flow statement and a summary of significant accounting policies and other explanatory notes 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 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report. A detailed report in terms of Sub-section 108(2) of the Universities Act, was issued to the Vice Chancellor of the University on 24 May 2016.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements 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 University's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Section 111 of the Universities Act, No. 16 of 1978 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the University of Kelaniya as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Public Sector Accounting Standard – 07

Although revaluation is required in case the fair value of Property, Plant and Equipment deviates from its carrying amount, action had not been taken after the year 2009 to revalue and account the fair value of the lands legally owned by the University shown a sum of Rs. 654,759,142 as cost as at 31 December 2015.

2.2.2 Non - Disclose of Transactions with related Parties

A Senior Lecturer of the Department of Industrial Management of the University officiated as a member of the Board of Directors of the “Lanka Education and Research Network (LEARN) Company” incorporated under the Companies Act, No. 07 of 2007, and the University had obtained internet facilities from that company. This had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

A sum of Rs. 1,627,334 directly credited to 02 bank accounts during the year under review had been accounted as an amount payable without identifying the nature and the period of the transaction

2.2.4 Unexplained Differences

According to the financial statements, the balance of the employee loans and advances amounted to Rs. 4,822,092 as at 31 December of the year under review, whereas it amounted to Rs. 4,943,292 as per schedules. Hence, a net difference of Rs. 121,200 was observed.

2.3 Accounts Payable

The following observations are made.

- (a) Withholding tax amounting to Rs. 252,214 had been retained in the accounts over a period of more than 02 years without being remitted to the Commissioner General of Inland Revenue.
- (b) Action had not been taken to settle retention money of Rs. 3,327,691 in connection with contracts completed during the period from the year 2006 to 2010.

2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances with laws, rules, and regulations were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

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| (a) Section 70 of the Universities Act, No. 16 of 1978 | Although it is the responsibility of the University to facilitate teaching for degrees or other academic distinctions, or hold examinations, 33 short term certificate courses had been conducted during the year under review by utilizing the resources of the University. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 371 (2) (c) | "Ad hoc" Sub-Imprestis should be settled immediately after the completion of the purpose for which it is granted. However, advances totalling Rs. 727,844 granted to 06 officers for international conferences in the year 2007 and the year under review, capital advances amounting to Rs. 3,500,000 granted to 03 officers for PhD researches during the year under review had not been settled even by 31 May 2016. |
| (c) Establishments Code for the University Grants Commission and Institutions of Higher Education.

Section 3(1) of Chapter XX and Section 1.6.1 of Chapter X | A sum of Rs. 1,137,569,476 had been paid as salaries and allowances during the year under review without verifying the attendance and leave of the academic staff. |

- (d) Public Enterprises Circular, (i) Contrary to the referenced Circular, 8 per cent to 20 per cent of the salaries of the staff officers totalling Rs. 1,841,209 had been paid during the year under review for entertainment based on the Circular letters of the University Grants Commission. Despite being paid in such a manner, a sum totalling Rs. 1,656,057 had also been paid from the University Fund for offices and common entertainment activities.
- (ii) Benefits, specifically approved by the Cabinet, Ministry of Public Administration, or the Treasury can be paid on the approval of the Council. However, on the approval of the Council, an incentive of Rs. 100,000 had been paid during the year under review to a probationary lecturer of the Department of Economics for completing the 02 year Post Graduate Degree within a period of 03 years since the date of appointment.

- (e) Public Enterprises Circular,
No. 12 dated 02 June 2003

Section 7.4.5

Although a survey on library books had last been conducted in the year 2012, the report had not been prepared and furnished even up to 31 May 2016 the date of audit.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the operating result of the University for the year ended 31 December 2015, had been a surplus of Rs.474, 804,754 as compared with the corresponding surplus of Rs. 122,261,416 in the preceding year. The surplus of the year under review had increased by a sum of Rs. 352,543,338 as compared with the preceding year. The increase in the income from the external examinations, and the fee-levying courses by sums of Rs. 259,259,930, and Rs. 37,866,698 respectively, and the decrease in other recurrent expenditures by a sum of Rs. 46,077,661 had specifically attributed to the improvement.

3.2 Contribution

The following observations are made.

- (a) Analysis of the financial results of the 04 preceding years with the year under review revealed a continuous surplus up to the year 2015. Considering the employee remuneration, Government taxes and the depreciation for non-current assets, the contribution of the University had shown a continuous improvement from the year 2012 to 2015. However, the contribution in the year 2014 had decreased by 70 per cent as compared with the year 2013. The contribution had again improved by 800 per cent in the year 2015.
- (b) Matters such as, increase in the income from the external examinations by 113 per cent, increase in the income from the fee-levying courses by 25 per cent during the year under review, and the increase in the fees charged for extension of time, had attributed to the improvement of the contribution during the year under review as compared with the preceding year. Increase of the course fees, and the increase of student enrolments by 10,000 in the year 2015 had attributed to the increase in the income from the external courses

4. Operating Review

4.1 Performance

The following observations are made.

(a) Academic performance

The number of students enrolled for the Faculty of Medicine in the academic year 2005/2006 was 198, and after a gradual decrease, only 168 students had been enrolled for the academic year 2014/2015. Accordingly, the percentage of enrolments had dropped by around 15 per cent, and action had not been taken to enroll a maximum number of local students by utilizing the available resources.

(b) Progress of the Researches

- (i) It is an important task to implement the research projects carried out by the University lecturers. The Research Committee of the University had approved 26 research projects for the year 2015, and a sum of Rs. 6,685,000 had been allocated in that connection. Audit observations in this regard are given below.
- Although 21 of the approved projects had been commenced, only Rs. 1,659,526 of the allocated sum amounting to Rs. 5,490,000 representing 30 per cent had been incurred.
 - Of the 21 projects in progress, progress reports relating only to 11 of them had been furnished.
- (ii) A sum of Rs. 105,000,000 had been allocated for research allowances in the year 2015. Without properly evaluating the progress of the researches, the

University had paid a sum of Rs. 8,307,951 to 585 lecturers and officers in excess of the provision.

- (iii) The University of Kelaniya retained 3,087th position in the world ranking by December 2015, and it was observed that the ranking climbed up to 2,815th position by May 2016.

4.2 Management Activities

The following observations are made.

- (a) The University had failed to acquire the ownership of 11 plots of land being used by the University over a period of more than 20 years, even up to 30 April 2016.
- (b) Five plots of the land owned by the Government of 32 acres, 05 roods, and 64 perches in extent where the Faculty of Medicine, Ragama had been located and the possession had been held by the University on lease basis, had not been vested in the University properly.
- (c) According to the criterion established by the University for the fee-levying Courses, 10 per cent of the income received from the courses should be credited to the Development Fund of the Faculty. However, a sum of Rs. 23,743,886 in excess of that limit had been credited to the Development Fund. Furthermore, 5 per cent of the income from the courses should be remitted to the Government income, but only 4 per cent had been remitted to the Government revenue during the year under review. Although it had not been approved, 1 per cent of the course income had been credited to the Vice-Chancellors' Fund.
- (d) Two lecturers officiating in Public institutions on sabbatical leave, had been paid the interim allowance of Rs. 10,000 and the 20 per cent additional allowance by both the University and the other institutions during the year under review. In addition to the said allowances, the cost of living allowance, and the special allowances of 15 per cent and 05 per cent had also been paid by both institutions to another lecturer. According to the audit examination conducted with respect to the month of December, 2015, sums of Rs. 71,770 and Rs. 71,890 had been paid by the University and the other Public institutions respectively to the 03 lecturers in addition to their salaries. The management had not queried the relevant institutions as to the same allowance being paid twice.

Furthermore, the University had paid sums of Rs. 2,084,656, and Rs. 602,353 as academic and research allowances respectively to the said lecturers who had been on sabbatical leave and not in the university service during the year under review.

4.3 Operating Inefficiencies

The following observations are made.

- (a) According to Section 33 of Chapter 10 of the Establishments Code for the University Grants Commission and Institutions of Higher Education, it was observed that a sum of Rs.61,933,498 had remained recoverable as at 31 December 2015 from 19 Lecturers who had breached agreements, and 14 of them were probationary lecturers. It was observed that the University was taking legal actions in connection with a sum of Rs. 5,974,527 recoverable from 3 lecturers, and additional financial costs would be likely to incur in the future in that connection. Although the bond value could be recovered from 48 installments in terms of the Establishments Code for the University Grants Commission and Institutions of Higher Education, it was observed that long delays of 10-15 years would occur for the recovery as the payment of instalments had been agreed upon in smaller amounts.
- (b) The miscellaneous advances amounting to Rs. 250,000 given to a lecturer on 14 December 2012 for a MBA industry visit had not been settled over a period of more than 03 years up to 31 May 2016 the date of audit. Although a disciplinary inquiry had been conducted in that connection, no action had been taken up to 31 May 2016 to recover those advances.

4.4 Weaknesses in Contract Administration

Many defects, including cracks on the walls, and leakages in the sewage system, were observed in the physical verification conducted on 27 April 2016 in connection with the hostel building that had been handed over to the University on 23 February 2015 after completing the construction at a cost of Rs. 219,998,912 under the construction of 60 hostels project in the Ministry of Higher Education. However, action had not been taken to rectify those defects through the contractor within the period of warranty.

4.5 Personnel Administration

Ninety eight and 124 vacancies had existed in the academic staff and the non-academic staff respectively as at 31 December of the year under review. As such, a sum of Rs. 35,369,489 had been paid to the visiting lecturers during the year, and 37 trainees had been recruited on assignment basis and paying daily wages, for the posts in the clerical and allied services in the non-academic staff.

4.6 Underutilization of Funds

The following observations are made.

- (a) Although the balance of the Research Grants Fund amounted to Rs. 12,202,459 as at 01 January of the year under review, 86 per cent of that remained idle without being utilized during the year as only a sum of Rs. 1,744,545 was utilized during the year.

Furthermore, a sum of Rs. 38,027,883 had been received from external institutions for 03 external projects carried out by the Faculty of Medicine, whereas the expenditure had totalled Rs. 24,381,516 as at 31 December 2015. As the Faculty of Medicine had not maintained progress reports in that connection, the progress of the projects could not be examined.

- (b) Balances of income totalling Rs. 3,664,468 and Rs. 504,687 relating to 12 Reward Funds and 07 Scholarship Funds respectively as at 31 December 2015, had not been utilized for awarding scholarships since 2009.

5. Accountability and Good Governance

5.1 Action Plan

According to the Action Plan, it was expected to carry out 979 activities during the year under review. However, 365 activities had not been carried out, whereas 255 activities were in progress.

5.2 Internal Audit

The Internal Audit Division of the University consisted of 06 officers. In addition to the University of Kelaniya, audits of the affiliated institutions such as, Gampaha Wickramaarachchi Ayurveda Institute, Post-graduate Institute of Archaeology, and Postgraduate Institute of Pali and Buddhist Studies, together with pre - audits on the payment of provident funds, gratuity, pension, and contracts according to the internal audit program, had been assigned to this Division. The Internal Audit Division should be responsible for the Vice-Chancellor of the relevant University and the Director of the relevant institutions.

Sixty one per cent of the time of the personnel had been allocated for the pre - audits, whereas 39 per cent had been allocated for other audits. Furthermore, an adequate number of professionally qualified officers had also not been recruited.

5.3 Budgetary Control

As the budget for the year 2015 had been revised on 09 February 2016, it was not possible to satisfy in audit as to whether the budget had been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of control.

Area of Systems and Controls	Observations
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(a) Control of Fixed Assets	Failure to account the fair value by revaluing the assets.
	Failure to acquire the ownership of lands and properties.

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| (b) Administration of Libraries | Failure to conduct surveys on library books. |
| | Failure to take action to recover the borrowed books. |
| (c) Contract Administration | Delays in the constructions. |
| | Failure to charge fines by extending the duration. |
| | Failure to get the repairs done within the warranty period. |
| (d) Control of Advances | Failure to settle the advances as soon as the completion of the intended task |
| | Settlement of advances through erroneous bills. |