

Eastern University, Sri Lanka 2013

The audit of financial statements of the Eastern University, Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and 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 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. This report also to be considered as a detailed report in terms of Sub - section 108 (2) of the Universities Act.

1.2 Management’s Responsibilities for the Financial Statements

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 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 judgment, including the assessment of the risks of material misstatement 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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 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. Opinion

In my opinion, except for the effects 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 Eastern University of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

2.2. Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)

Fixed assets such as laboratory and teaching equipment and vehicles at the total cost of Rs. 6,229,384 which had been fully depreciated and continued to be used in the year under review had not been revalued and brought to accounts in terms of SLPSAS-3.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The value of furniture taken by the University from Sabragamuwa University in the year 2011 had not been ascertained and brought to accounts.
- (b) The University had maintained two Bank Accounts in the name of “M/S Consortium Norwegian University of Science and Technology (NTNU) Link Project” and “Vice Chancellor’s Fund” and sums of Rs.1,743,603 and Rs.2,912,411 respectively had remained in those accounts as at the end of the year under review. However, those balances had not been brought to the accounts.
- (c) It was reported that assets such as furniture, equipment, books and vehicles at the total value of Rs. 19,411,037 were lost during the war situation prevailed in the district in 1990. In this connection, a sum of Rs. 17,860,814 had only been adjusted in the books of accounts as loss of assets. However, adjustments had not been made in respect of balance assets of Rs. 1,550,223.
- (d) After completion of the Improving Relevance and Quality of Undergraduate Education (IRQUE) Project in 2011, assets of this Project such as computers, furniture, books and equipment were handed over to the University. However, those assets had not been valued and brought to the accounts.

2.2.3 Accounts Receivable

The following observations are made.

- (a) The University had not taken action for more than 05 years to recover the outstanding loan balances aggregating Rs. 10,175,390 from 253 officers who were retired, vacated the posts and transferred out to other service stations.
- (b) Advances aggregating Rs. 5,000,378 granted to foreign suppliers were lying in 135 import advance accounts for over 10 years without action being taken to investigate and recover those advances from the respective suppliers.
- (c) Action had not been taken to recover the advances aggregating Rs. 14.61 million paid for various purposes such fuel, purchases and seminars and were lying for a period ranging from 01 year to 17 years.
- (d) Advances aggregating Rs.59.2 million had been paid to various suppliers and these advances were remained unsettled for over 5 years without action being taken to identify the relevant suppliers and recover the advances from them.

2.2.4 Lack of Evidence for Audit

The following evidence indicated against each item had not been made available for audit.

| Item | Value | Evidence not made Available |
|--|-------------|--------------------------------|
| ----- | ----- | ----- |
| | Rs. | |
| (a) Land and Building | 19,834,078 | } Register of Fixed Assets |
| (b) Plant and Machineries | 4,337,313 | |
| (c) Motor Vehicles | 972,960 | |
| (d) Sports Goods | 6,021,870 | |
| (e) Furniture Fittings and Office Equipment | 132,868,565 | |
| (f) Laboratory and Teaching Equipment | 20,791,555 | |

| | | |
|---------------------------|------------|--|
| (g) Books and Periodicals | 17,889,686 | |
| (h) Other Assets | 24,638,430 | |
| (i) Sundry Debtors | 14,357,980 | Detailed Schedules and Age Analysis |

2.2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) According to the letter No.PE/01/174/11 (b) dated 6 March 1998 of the Director General of Public Enterprises and Establishments Circular Letter No. 08/2013 dated 23 May 2013 of the University Grants Commission, the allowances payable for language proficiency for government officers should not be extended to State Corporations and Statutory Boards. However, a sum of Rs. 321,110 had been paid to ten academic staff from 2005 to March 2011 and another sum of Rs. 187,252 had been paid to seventy four non-academic staff during the year under review as language proficiency allowance.
- (b) Funds amounting to Rs. 17,327,951 had been received from TROMSO University of Norway to facilitate the BSc in Nursing Programme at the Faculty of Health Care Science without obtaining approval of the Council and Senate of the University. A separate book of accounts had not been maintained in this regard. Even though a sum Rs. 17,327,951 had been received from the University of Norway, of this a sum of Rs. 8,614,737 had not been spent up to 30 April 2014 as per the statement of former Deputy Bursar.

2:3. Non- compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed in audit are given below.

| Reference to Laws, Rules, Regulations and Management Decisions | Non- compliance |
|--|--|
| (a) Section 109 of the Universities Act No. 16 of 1978 | The audited financial statement and report of the Auditor General for the year 2012 had not been published in the Government Gazette up to 30 April 2014. |
| (b) Establishments Code for the University Grants Commission and Higher Educational Institutions | |
| (i) Section 20.6 of Chapter- X | Particulars of no-pay leave obtained by 02 academic staffs had not been reported monthly to the Auditor General in Form General: 96. |
| (ii) Section 3:1 of Chapter- XXVII | The arrival and departure of academic staff of the University had not been recorded in attendance register. In this regard, the Vice Chancellor had informed me that, by tradition the academic staff are not recorded their attendance. |
| (c) Public Finance Circular No.PF/FS/A Vehicle/2011 dated 6 May 2011 | A sum of Rs. 577,000 derived from sale of vehicles of the University in July 2013 had not been credited to the Consolidated Fund. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University during the year under review had resulted in a deficit of Rs. 765,406,686 before taking into account the Government Grant of Rs. 621,470,000 for recurrent expenditure as compared with the corresponding deficit of Rs. 600,358,590 for the preceding year before taking

into account the Government Grant of Rs. 516,211,000 for that year thus indicating a further deterioration of Rs. 165,048,096 in the financial results. The increase of operating expenses by Rs. 168,614,358 against the increase of other income by Rs. 9,133,842 was the main reason for this deterioration.

4. Operating Review

4.1. Performance

The academic performance of the University during the year under review was as follows.

(a) Results of Examinations

Details of final examinations held in 2013 and the passing out of graduates are as follows.

| Details | Faculty of Agriculture | Faculty of Arts and Culture | Faculty of Commerce and Management | Faculty of Science | Faculty of Health Care Sciences |
|---|---------------------------|--------------------------------------|---|-----------------------|---------------------------------------|
| No. of students sat for final examinations during the year under review | 24 | 311 | 103 | 41 | 42 |
| No. of students passed the examinations | 24 | 311 | 81 | 34 | 42 |
| No of students passed degree examinations, as a | | | | | |

percentage of No. 100% 100% 78.64% 82.92% 100%
of students who sat
for the
examinations

(b) Enrollment of Students

The number of students enrolled for each faculty and the number of students who left after obtaining degrees during the past 03 years are shown below.

| Faculty | Number of Students Enrolled | | | Number of students who left after obtaining degrees | | |
|------------------------------------|-----------------------------|-------------|-------------|---|------------|------------|
| | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| Faculty of Agriculture | 127 | 175 | 174 | 16 | 29 | - |
| Faculty of Arts and Culture | 1466 | 1621 | 1441 | 40 | 312 | 431 |
| Faculty of Commerce and Management | 771 | 911 | 869 | 56 | 118 | 28 |
| Faculty of Science | 214 | 367 | 368 | 12 | 31 | 17 |
| Faculty of Health Care Sciences | 215 | 238 | 238 | - | - | 27 |
| Total | 2793 | 3312 | 3090 | 124 | 490 | 503 |

No students had been graduated from the Faculty of Agriculture in the year 2012 whilst 40 students only had been passed out in 2010 from the Faculty of Arts and Culture.

(c) Cost per Student

The total cost of each faculty of the University and the cost per student for the year under review are shown below.

| | Faculty of Agriculture | Faculty of Arts and Culture | Faculty of Commerce and Management | Faculty of Science | Faculty of Health Care Sciences |
|-----------------------------|---------------------------|-----------------------------------|---|-----------------------|---------------------------------------|
| Total Cost (Rs.) | 124,721,710 | 128,483,284 | 124,959,683 | 124,372,918 | 125,258,078 |
| Total Number of Students | 255 | 1290 | 775 | 579 | 359 |
| Cost per Student(Rs.) | 489,105 | 99,599 | 161,238 | 214,806 | 348,908 |

The highest cost per student amounting to Rs. 489,105 was reported at the Faculty of Agriculture whilst lower cost per student amounting to Rs. 99,599 was reported at the Faculty of Arts and Culture.

(d) Mahapola and Bursaries

A sum of Rs. 16,689,950 had been paid as Mahapola to 925 students and a sum of Rs. 18,796,100 had been paid as Bursary to 1,069 students during the year under review. However, a sum of Rs. 1,826,900 in respect of Mahapola had not been paid to 610 students up to the date of audit on 22 May 2014 as those students had discontinued their courses.

(e) Library Administration

393 books had not been returned within the stipulated period by 52 lecturers who had obtained books from the Library. In this regard, no proper action had been taken to get back those books which were outstanding for period ranging 01 year to 05 years or to impose a fine for the delays.

4.2 Matters in Contentious Nature

The University had invited applications on 25 August 2011 from eligible persons for the post of Vice Chancellor. A former Senior Lecturer Grade- II in Mathematics who had

vacated his post on 01 May 2006 had been appointed as Vice Chancellor with effect from 13 February 2012.

The following observations are made in this regard.

- (a) Application for the post of Vice Chancellor was entertained up to 30 September 2011. However, a Canadian Citizen and the former Senior Lecturer Grade- II in Mathematics of the Eastern University had made an application for the post of Vice Chancellor, while he was on vacation of post up to 30 November 2011.
- (b) An application for the post of Vice Chancellor had been made by the former Senior Lecturer Grade- II on 19 September 2011. However, he had made a request to the University for reinstatement of his post only on 11 October 2011 after submitting application for the post of Vice Chancellor.
- (c) The Council at its 220th meeting held on 14 January 2012 had recommended the Canadian citizen while he was living in Canada, who had vacated his post from 01 May 2006 to 30 November 2011 to select for the post of Vice Chancellor without considering the provision in Section 8.2 of Chapter V of the Establishments Code of Government of Sri Lanka.
- (d) The former Senior Lecturer Grade- II had been appointed as Vice Chancellor on 13 February 2012. However, he assumed duties at the University only on 05 March 2012 as Vice Chancellor and at the same date he resumed duty as Senior Lecturer Grade- II in Mathematics at the Department of Mathematics after returning from Canada.
- (e) Although he was living in Canada at the time of appointment of Vice Chancellor, the appointment letter posted to him indicated an address in Batticaloa.
- (f) Although, the former Senior Lecturer was reinstated by the University on 01 December 2011 after he made a request for the same on 11 October 2011, he had resumed duties as Senior Lecture Grade -II in Mathematics only on 05 March 2012.

4.3 Management Inefficiencies

The following observations are made.

- (a) Fifty nine lecturers of the University who went abroad on scholarships had not reported for duty or left from the University after completion of the scholarships. However, the University had not taken action to recover sums aggregating Rs 150,994,569 as at 31 December 2013 from the 59 lecturers for breach of agreements. In this regard, the Vice Chancellor had informed me that, 12 cases out of 74 bond defaulters had been handed over to the Attorney General's Department to take legal action and to recover the dues from the defaulters. Two State Counsels are handling these cases. Further, sums aggregating Rs.9.7 million had been recovered from the bond defaulters up to 30 April 2014.

- (b) The University had not obtained approval from the University Grants Commission (UGC) in terms of Section 29 (d) and 29 (e) of the Universities Act, No. 16 of 1978 to confer post-graduate degrees even up to 31 December 2013. However, three post-graduate degree courses (taught courses) had been conducted without obtaining such approval from the UGC. In this regard, the Vice Chancellor had informed me that, approval from UGC was not necessary for the research based courses such as M.Phil and Ph.D.

- (c) Rent had not been recovered from 38 officers who were in occupation of 20 official quarters as at the end of the year under review in terms of Section 5 of Chapter XIX of the Establishments Code of Government of Sri Lanka. Meanwhile, economic rent had been recovered from the occupants of the official quarters belonging to the University at the monthly rental ranging from Rs.150 to Rs.600 during the year under review without obtaining a report from the Government Valuer as per Paragraph 1 of the State Accounts Circular No.147/2002 dated 16 April 2002.

4.4 Procurement of Medical Equipment

Medical equipment to the value of Rs 13.36 million had been procured from a private company in India during the previous year for the use of Faculty of Health Care Sciences (FHCS). The following observations are made in this regard.

- (a) A Technical Evaluation Committee (TEC) had not been appointed for the purchase of medical equipment. Instead, the Procurement Committee (PC) had recommended and approved the purchase of medical equipment.
- (b) The Faculty of Health Care Sciences had invited quotations directly by sending e-mails to the selected suppliers without following the required tender procedures.
- (c) According to the information made available for audit, the same supplier had submitted all three quotations and there were irregularities in the quotations submitted by the supplier. However, this had not been considered by the PC.
- (d) Although the medical equipment called “eight accessories of the tissue processor” had been procured at a cost of Rs. 4.5 million, it had remained idle in a box from the date of purchase due to failure to purchase the main part of tissue processor valued at Rs. 2.9 million.
- (e) Even though the Audit Committee had recommended at its meeting held on 27 January 2014 to black list the supplier at the EUSL since the supplier had cheated the University by submitting bogus quotations, exorbitant prices, tempering with brand and the label on the items supplied to the University and also for delaying the supply, the University had not taken action to black list the supplier even up to 30 June 2014. In this regard, the University had not taken action to recover the overpayment of Rs. 850,546 made to the supplier as recommended by the Inquiry Committee appointed by the University.

4.5 Human Resources Management

The position of approved and actual cadre of the University as at 31 December 2013 is given below.

| Category of Staff | Approved cadre | Actual cadre | Number of vacancies | Excess |
|-------------------------|----------------|--------------|---------------------|-----------|
| Academic | 230 | 153 | 72 | - |
| Academic Support | 14 | 09 | 05 | - |
| Administrative | 29 | 19 | 10 | - |
| Temporary (Academic) | 59 | 58 | 01 | - |
| Visiting | - | - | - | 70 |
| Total | <u>332</u> | <u>239</u> | <u>88</u> | <u>70</u> |

The following observations are made in this regard.

- (a) The University had not taken action even as at the end of the year under review to fill 88 vacancies.
- (b) There were 20 vacancies in key academic post such as post of Professor and Associate Professor in five faculties of the University. However, the University had not taken action to fill the vacancies.

In this regard, the Vice Chancellor had informed me that, the vacant posts were advertised through press advertisements on many occasions but, there were no responses.

4.6 Assets Management

An elevator purchased at a cost of Rs. 2,018,963 in the year 2007 and installed at the Senate Building had not been utilized for more than six years due to lack of spare parts.

5. Accountability and Good Governance

5.1 Tabling of Annual Report

Annual Report for the year 2011 had been tabled in Parliament only on 20 January 2014 and the Annual Report for the year 2012 had not been tabled in Parliament up to 30 April 2014.

5.2 Action Plan

According to the Circular Letter No.PF/R/2/2/3/5/(4) dated 10 March 2010 of the Director General of Public Finance, the University had not prepared an Annual Action Plan and Annual Performance Report for the year under review.

5.3 Internal Audit

Permanent and experienced staff had not been appointed to the Internal Audit Unit to carry out the internal audit in an efficient and effective manner.

5.4 Procurement Plan

A Procurement Plan had not been prepared for the year under review in terms of Section 4.2 of the Procurement Guidelines-2006.

5.5 Budgetary Control

Significant variances were observed between the budgeted and actual income and expenditure thus, indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

- (a) Accounting
- (b) Assets Management
- (c) Payments and Settlement of Advances
- (d) Procurement Procedure
- (e) Recruitment Procedure