

## South Eastern University of Sri Lanka - 2012

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the South Eastern University of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### 1.2. Comments on Financial Statements

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##### 1.2.1 Accounting Polices

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- (a) The value of Property, Plant and Equipment aggregating Rs. 1,498,750,862 shown in the financial statements had been based on book value. A physical verification of these assets had not been carried out during the year under review.
- (b) The University had not disclosed the accounting policy adopted for the government grants, including the methods of presentation in the financial statements.

##### 1.2.2 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- (a) The following liabilities amounting to Rs. 763,843 had not been disclosed in the financial statements presented for audit.

<b>Details</b>	<b>Amount</b>
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	<b>Rs.</b>
Wages and Transport	112,910
News paper expenditure	47,990
Telephone calls charges	603,943
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	<b>763,843</b>
	=====

- (b) Even though a sum of Rs.219, 364,484 had been mentioned as cash purchases of fixed assets and Rs.220,300,000 mentioned as capital grant received in the Cash Flow Statement, donated vehicles worth of Rs.24,300,000 had been included in the above mentioned amount.
- (c) Depreciation of Rs. 64,345,984 had been shown in the financial statements, whereas the depreciation had been stated in the cash flow statement as Rs. 60,466,003. Therefore the depreciation had been understated by Rs. 3,879,981 in the cash flow statement.
- (d) Expenditure for recurrent nature for the symposium amounting to Rs. 2,499,730 had been erroneously classified as capital expenditure.
- (e) Withdrawal of fixed deposits amounting to Rs. 8,000,000 had been credited to other income. Therefore income had been overstated by Rs. 8,000,000 for the year under review.
- (f) Master of Business Administration (MBA) Programme and Centre for External Degrees and Professional Learning (CEDPL) are the units operated under the University. These units had been earned following excess in 2012.

	<b>Course Fees</b>	<b>Expenditure</b>	<b>Excess</b>
	----- Rs	----- Rs	----- Rs
<b>MBA Programme</b>	<b>7,435,810</b>	<b>4,779,437</b>	<b>2,656,373</b>
<b>CEDPL</b>	<b><u>3,434,145</u></b>	<b><u>4,714,654</u></b>	<b><u>(1,280,509)</u></b>
	<b><u>10,869,955</u></b>	<b><u>9,494,091</u></b>	<b><u>1,375,864</u></b>

The University had not shown above course fees and expenditure in the statement of financial performance in 2012.

### 1.2.3 Accounts Receivable

Following observations are made.

(a) **Distress Loans**

Outstanding distress loans given to three officers amounting to Rs.293,123 had not been recovered for a long period.

**1.2.4 Lack of Evidence for Audit**

The following evidence indicated against each item was not provided for audit.

Description of Items -----	Value of accounts affected -----	Documentary evidence not made available for audit -----
	Rs	
Building	440,304,744	Valuation report.
Furniture	89,549,319	Verification reports showing the value
Books and Periodicals	105,022,133	Verification reports and schedules
Equipment	301,314,501	Verification reports
Security deposit	2,111,418	Confirmations
Doctor of Philosophy / Master Degree	3,278,422	Detailed Schedules
Vehicle Repairs	2,309,124	Relevant documents or files

**1.2.5 Non - compliance with Laws, Rules Regulations and Management decisions.**

Instances of non – compliance with Laws, Rules, Regulations and Management Decision observed in audit are given below.

**Reference to Laws, Rules, Regulations  
and Management Decisions**  
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**Non Compliance**  
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(a) Establishments Code for the  
University Grants Commission and  
Higher Educational Institutions  
(i) Section 23 of Chapter X

A leave register relating to the leave

- granted to lecturers had not been maintained
- (ii) Section 20.6 of Chapter X All Leaves without pay had not been reported monthly to the Auditor General in form General : 96
- (iii) Section 3:1of Chapter- XXVII An attendance register had not been maintained in respect of the academic staff of the University to mark the time of arrival and departure.
- (b). Establishments code of the Democratic Socialist Republic of Sri Lanka - Section 05 of Chapter XIX Rental for the occupation of Government quarters should be deducted from the salary of the occupants. But no rental had been deducted from the salaries of the occupants.
- (c). Financial Regulation
- (I) 1647(b) Board of survey had not been carried out on vehicles of the University from its inception.
- (II) 702 (3) Copies of the contract agreements had not been forwarded to the Auditor General
- (d) Public Administration Circular No 41/ 90 dated 10 October 1990 Fuel consumption had not been tested on twenty vehicles attached to the University.
- (e)Letter No. PE/1/174/11(b) dated 10 March 1998 of the Director General of the Department of Public Enterprises. Language Allowance amounting to Rs. 310,906 had been paid to the officers without obtaining approval from the University Grants Commission.
- (f) Paragraphs 6.3 and 6.4 of the Circular No.856 dated 31 January 2005 of the University Grants Commission It has been instructed that the University should appoint a Committee and monthly performance reports should be sent to the University Grants Commission with regard

to the Mahapola and Bursary payments. However, action had not been taken accordingly

## 2. Financial Review

### 2.1 Financial results

According to the financial statements presented, the working of the University during the year under review had resulted in a deficit of Rs. 442,113,071 before taking into account the Government Grant as compared with the corresponding deficit of Rs. 398,504,487 for the preceding year. The Government grant amounting to Rs. 367,417,850 received for the recurrent expenditure, had reduced the deficit to Rs. 74,695,221 for the year under review as compared with a deficit of Rs. 56,672,137 for the preceding year after taking into account the Government grant of Rs. 341,832,350 for the recurrent expenditure for that year thus showing a further deterioration in the financial results by Rs. 18,023,084.

### 2.2 Analytical Financial Review

#### (a) Income and Expenditure

Particulars	2012	2011	Increase/ (Decrease)	Percentage of Increase/ (Decrease)
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	Rs. (000)	Rs (000)	Rs (000)	%
Income	13,743	9,172	4,571	50
Expenditure	<u>455,856</u>	<u>407,676</u>	<u>(48,180)</u>	(12)
Deficit	442,113	398,504	(43,609)	(11)
Government Grants	367,418	341,832	25,586	07
Surplus/(Deficit) after Government Grants	<u>74,695</u>	<u>56,672</u>	<u>(18,023)</u>	(32)

#### (b) Financial Position

<b>Particulars</b>	<b>2012</b>	<b>2011</b>	<b>Increase/ (Decrease)</b>	<b>Percentage of Increase/ Decrease</b>
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	<b>Rs (000)</b>	<b>Rs (000)</b>	<b>Rs (000)</b>	
Other Financial Assets	9,473	22,314	(12,841)	58 %
Other Current Assets	62,191	85,723	(23,532)	(27)%
Cash and Cash Equivalents	3,330	390	2,940	754 %
Advances paid based on Research Grants	292	292	-	0%
Lease Creditors	-			
Capital Grants (Unspent)	936	-	936	
Other Funds	3,284	2,628	656	25%

### 3. Operating Review

#### 3.1 Performance

Details of certain academic activities of the University for the year under review are given below.

<u>Degree course conducted</u>	<u>Number of Registered students</u>		<u>Number of students passed</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	Applied Science	Nil	184	43
Art and Culture	Nil	118	179	02
Management and commerce	Nil	274	106	01
Islamic and Arabic	<u>Nil</u>	<u>243</u>	<u>88</u>	<u>04</u>
<b>Total</b>	<u>—</u>	<b><u>819</u></b>	<b><u>416</u></b>	<b><u>22</u></b>

- (a) The total numbers of graduation had increased by 1790 per cent when compared with previous year.
- (b) No. of permanent lecturers were 105 and students per lecturer was 19 during the year under review.
- (c) The Mahapola Scholarships amounting to Rs. 13,531,550 had been paid to 776 students and bursary amounting to Rs. 16,286,300 had been paid to 1,096 students in the year under review.
- (d) Hostel accommodation had been provided to 505 male students and 918 female students in year under review. The total of hostel expenditure incurred was Rs. 4,028,152
- (e) Total of operational expenditure, without depreciation was Rs. 391,510,177 and total number of students was 2034. The cost per student in year under review was Rs. 192,483 and the cost per students for last year was Rs. 196,150.

### **3.2 Management inefficiencies**

Following observations are made.

- (a) A Lecturer in English was granted Study Leave from 15 September 2006 to 10 January 2010 to study for Doctorate Degree at Northumbria University, UK. After completion of his Study Leave, he had not submitted the certificate even after lapsed of 03 years. Therefore, it was considered in audit, that the Lecturer had breached the bond and agreement. The bond amount was Rs. 8,942,758.
- (b) Another Senior Lecturer, Grade - II was granted Study Leave for one year from 26 July 2008 to 25 July 2009 to study for Doctorate Degree at University of Madras, India. But, the Lecturer had abandoned his study. A decision had been taken in the 49<sup>th</sup> Leave and Award Committee (LAC) meeting held on 13 December 2011 to pay back the whole bond amount of Rs. 1,035,321 due to the violation of bond and agreement. However, effective action had not been taken to recover this amount up to the date of audit on 22 February 2013.

### **3.3 Delays in Project**

A sum of Rs. 16,866,550 had been paid as consultancy service during the year 2006 for the preparation of master plan of the University. However, such master plan had not been prepared even up to 30 April 2013.

### **3.4 Settlement of Advances**

- (a) A sum of Rs.88, 975 had been paid as advances for specific purposes. However, these advances had been settled in full by cash without being utilized for the intended purposes with considerable delay.
- (b) Four advances amounting to Rs. 878,100 had been settled with considerable delay after the completion of the purpose for which they were obtained.

### **3.5 Transactions in Contentions Nature**

- (i) A sum of Rs. 118,460 had been made for painting works to the Vice – Chancellor private residence. However, this payment had been made without proper authority.
- (ii) A sum of Rs. 218,481 had been paid as electricity and water bills for the year 2012 for the Vice – Chancellor private residence without proper authority.

### **3.6 Procurement of Goods and Services**

#### **(a) Procurement System**

A Register had not been maintained to record the meeting minutes of the Procurement Committee and Technical Evaluation Committee (TEC). Instead, the minutes were kept in a loose-leaf form in the relevant procurement files. It might lead to tempering the documents and information subsequently. Provisions in Section 2.11.3 of the Procurement Guidelines (NPA Circular No.08) had not been properly adhered.

#### **(b) Purchase of Steal Tables and Chairs**



- (i) A sum of Rs 1,257,120 had been paid for the purchase of steel tables and chairs on 28 February 2012. In this connection following observations are made.
- The open tender procedure had not been followed as per Procurement Guide lines 2006 and Public Finance circular No. 365 of 20 October 1998.
  - Four by hand quotations only had been obtained.
  - Entries for receiving documents had not been made in the inward register.
  - Evaluation report and appointment letters for the Evaluation Committee had not been made available for audit.
  - Tender should be advertised in newspapers and notice board. However, this tender had not been advertised as required.
  - According to the Tender Board minutes, three members had participated in the tender board. However, a member who attached to the University was not in duty in the same date.
  - VAT details had not been made available for audit.

### 3.7 **Research Grants**

#### (a) **Procedure in obtaining Research Allowance**

- (i) Although 86 staff had obtained research allowance, only eleven officers had submitted research reports.
- (ii) Staff had been paid research allowance without any proposals.
- (iii) One research committee meeting had been held during the years 2011 and 2012. In this regard, no action had been taken by the management of the University to expedite research works by the academic staff who had obtained research allowance.

**(b) Unsettled Research Grants**

Research grants amounting to Rs.291,869 had been paid to 13 University teachers for researches. However, this research grants had not been settled for a long period of time.

**3.8 Payments**

**(a) Payments of Honorarium.Rs.1, 111,036**

The External Degree and External Courses for the year 2012of the South Eastern University of Sri Lanka had made honorarium payments amounting to Rs.1, 111,036 to 25 officers from the EDEC's account for the period of January to December 2012. However, there were no any provisions in circulars, rules and regulations to pay honorarium.

**(b) Payment of Hiring Charges Rs. 98,800**

Hiring charges amounting to Rs. 98,800 had been paid for the hiring of a vehicle used for the External Degree Examination works from 15 February 2012 to 12 March 2012. However, according to the records maintained by the Security Office at the entrance of the University, no entries had been made that the above mentioned hiring vehicle was entered in the University premises in the said period.

**(c) Un recovered Electricity Charges**

Electricity charges for 22 quarters amounting to Rs. 446,571 had been paid to the Ceylon Electricity Board from the University funds. However, appropriate action had not been taken to recover the electricity charges from the related occupants in terms of Section 5.8 of Chapter xix of the Establishments code of Democratic Socialist Republic of Sri Lanka.

**3.9 Library Administration**

Several Books had been obtained by the academic and non academic staff without imposing limits and those books had not been returned to the library for nearly 07 years period. The opportunity to the students and other officers for using books had

been lost due to obtaining books without the limit and not returning those books, to the Library in time.

### **3.10 Appointment of Director and Coordinators**

According to the University Grants Commission Circular No.935 of 25 October 2010, the Director and coordinators shall be appointed to EDEC Unit by the Council through calling for application from internal and external candidates and selection shall be made by a panel appointed by the Council. However, the Council had appointed Director and coordinators in contrary to the above rules and regulations.

## **4. Accountability and Good Governance**

### **4.1 Corporate Plan**

Even though a Corporate Plan had been prepared for the period 2012 – 2016, it had not been approved by the Council. Further a review of preceding three years operating results had not been included in the Corporate Plan.

### **4.2 Action Plan**

An Action Plan for the year 2012 had not been prepared. Therefore, it was unable to examine the matters relating to non achievement of targets, excess expenditure and non completion of performance according to the Corporate Plan.

### **4.3 Procurement Plan**

A Procurement Plan for the year 2012 had not been prepared.

### **4.4 Budgetary Control**

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

#### **4.5 Tabling of Annual Report**

Annual Report for the year 2011 had not been tabled in Parliament in terms of Section 6.5.3 of Chapter 6 of the Public Enterprises circular No. PED 12 of 02 June 2003.

#### **4.6 Internal Audit**

##### **(a) Internal Audit Staff**

- (i) It is necessary to allocate adequate number of officers who are competent in relevant field. Even though as per 03<sup>rd</sup> paragraph of Internal Audit Guidelines dated 09<sup>th</sup> June 2009 issued by the Department of Management Audit, there should be adequate staff in the Internal Audit Unit. However, only one officer i.e Assistant Internal Auditor had been allocated to this unit.
- (ii) As per the provisions in the Finance Act, half yearly internal audit reports should be sent to the Auditor General. But the University had not complied with this requirement.

#### **5. Systems and Controls**

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

- (a) Accounting
- (b) Fixed Assets
- (c) Advance Payments and Settlements
- (d) Library Administration
- (e) Staff Loans
- (f) Other Payments