

## **University of Moratuwa - 2013**

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The audit of financial statements of the University of Moratuwa 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 equity 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 the Section 13(1) of the Finance Act, No. 38 of 1971 and 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.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 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. 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 audit evidence to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial statements**

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### **2:1 Qualified Opinion**

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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 University of Moratuwa as at 31 December 2013 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The cash flow statements presented for the year under review had not been prepared in accordance with the Sri Lanka Public Sector Accounting Standard No.02.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The assets costing Rs.1,749,081,481 with zero net value as at 31 December 2013 which are being used at present had not been revalued and brought to account.
- (b) Recurrent expenditure amounting to Rs. 4,533,347 had been shown as intangible assets instead of being debited to the respective expenditure accounts and capital expenditure amounting to Rs.598,080 had been shown as recurrent expenditure in the financial statements.
- (c) The credit balances of Rs.2,387,776 relating to 10 short term courses not in operation by 31 December 2013, had been brought to account as deferred income instead of being brought to account as income of the University.
- (d) The amortization relating to the year under review had been overstated by a sum of Rs.1,587,123 thus resulting in the understatement of the Capital Grants spent Account by that amount and the overstatement of amortization for the year by that amount.
- (e) An excess provision of Rs.1,672,075 had been made for the accrued security expenses as at the end of the year under review and as such the accrued expenditure and the security service expenditure had been overstated in the accounts by that amount.
- (f) The land acquired on a lease for Rs.1,400,000 from the Urban Development Authority had not been disclosed as leasehold properties in the accounts.

- (g) Recurrent expenditure amounting to Rs.791,367 relating to the year under review had been debited to the Vice Chancellor’s fund Account instead of being debited to the respective expenditure accounts.

**2.2.3 Accounts Receivable**

The following observations are made.

(a) Breach of Agreements and Bonds

- (i) The agreement and bond compensation amounting to Rs.52,909,188 recoverable as at 31 December 2013 from 32 officers who had breached the agreements and bonds, had not been recovered.
- (ii) Even though the recovery of a sum of Rs.1,505,921 recoverable from 09 officers who had breached agreements, from the University Provident Fund had been authorised by those officers, that money had not been recovered even by 31 December 2013.
- (iii) Legal action for the recovery of a sum of Rs.14,766,369 recoverable from 05 officers who had breached agreement and bonds had not been taken even by the end of the year under review. The sum of Rs.2,905,870 recoverable from 03 officers included in the amount had been older than 10 years.

- (b) Even though an indoor sports stadium had been constructed at a cost of Rs.4,435,700 from the University Fund on the sponsorship of the Department of Sports Development according to an understating reached, the money spent had not been reimbursed even by the end of the year under review despite the elapse of 06 years after the completion.

**2.2.4 Lack of Evidence for Audit**

The Mahapola bursaries amounting to Rs.1,793,700 shown under the accounts payable could not be accepted in audit due to the non-submission of the age analysis and list of names of students.

**2.2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
(a) Universities Act, No.16 of 1978 Section 99	All moneys received by the Institutions of Higher Education from any source whatsoever should be credited to the University Fund. Nevertheless a sum of Rs.4,002,694 collected from the students as supplication fees and a sum of Rs.2,783,824 collected as Aptitude tests

income had been shown under the Accounts payable without being credited to the University Fund.

- (b) Establishments Code for the University Grants Commission and the Higher Educational Institutions Chapter XX Section 3.1
- Even though every person, employed in every Institution of Higher Education should record the time of arrival and the time of departure in the Attendance Register the academic staff had not marked the times of arrival and departure.

## **2.2.6 Transactions not Supported by Adequate Authority**

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The following observations are made.

- (a) In terms of Section 99 of the Universities Act, No. 16 of 1978 all income earned by the Institutions of Higher Education from sources whatsoever should be credited to the Fund of such institution. Attention to this matter is drawn in the letter No.UGC/F/PA/2002 dated 24 February 2003 of the Chairman of the University Grants Commission. Nevertheless a sum of Rs.7,170,033 out of the External Course income earned by the University and a sum of Rs.1,880,579 out of the Aptitude test income collected during the year 2013 had been distributed among the employee without the approval of the Treasury. In this connection the Public Finance Circular No.380 on undertaking Consultancy service had been erroneously interpreted.
- (b) Even though the objective of the Universities Act, No.16 of 1978 is the establishment of Institutions of Higher Education and maintaining them, contrary to that Act and without approval of the approved of the Cabinet-of Ministers, a sum of Rs.2,613,580 out of the income of the External Course on Bachelor of Information Technology had been paid as management fees to a private company maintained in the University premises.

## **3. Financial Review**

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### **3:1 Financial Results**

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According to the financial statements presented, the operations of the University during the year under review had resulted in a deficit of Rs.190,252,999 as compared with the corresponding deficit Rs.64,407,671 for the preceding year. Even though the grant received from the Government for recurrent expenditure as compared with the preceding year had increased by a sum of Rs.103,772,000, the deficit for the year under review as compared with the preceding year, had increased by a sum of Rs.125,845,328 and that had been mainly due to the increase of the personal emoluments by a sum of Rs.158,364,163, the increase of welfare services expenses by a sum of Rs.24,713,733 and the increase of the contractual services expenditure by a sum of Rs.26,360,158.

#### 4. Operating Review

##### 4:1 Performance

The information on students for the year under review had been on follows.

	Faculty of Engineering	Faculty of Information Technology	Faculty of Architecture
Number of Permanent Lecturers	253	28	83
Number of Undergraduates enrolled	1,005	274	468
Number of Undergraduates left	697	67	309
Number of Students remaining	3,498	720	1,299

- (a) The number of Permanent Lecturers in service during the year under review had been 364 and the average number of Student per Lecturer had been 15.
- (b) The recurrent expenditure for the year under review amounted to Rs.1,444,551,340 and cost per student amounted to Rs.261,836.
- (c) Hostel accommodation had been provided in the year under review to 825 male undergraduates and 230 female undergraduates and the hostel expenditure amounted to Rs.5,661,639.

##### 4:2 Management Inefficiencies

The following observations are made.

###### (a) Delay in the Release of Examination Results.

- (i) According to the Circular No.636 dated 14 July 1995 of the University Grants Commission, the results of the Internal Examinations of the University should be released within 03 months after the conduct of the examinations. Nevertheless, 73 instances of delays ranging from 04 months to 17 months were observed in the release of results of examinations held in the year 2012 and 2013.
- (ii) Seventeen instances of delays in the release of the results of examinations of the first semester of certain courses beyond the dates of the relevant students examinations of the second semester were observed.
- (b) According to the terms of the lease agreement of the land acquired by the University from the Urban Development Authority on lease, development works thereon should have been completed within 02 years from the date of the agreement, that is, 14 October 2009. As such

the period specified for the development work had expired on 14 October 2011. But the development works had not been completed even by 11 June 2014.

#### **4.3 Apparent Irregularities**

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Contrary to the provisions in Chapter XIX of the Establishments Code for the University Grants Commission and Higher Educational Institution, a Lecturer of the University had functioned in the post of Special Consultant of another institution of the Government without approval from 01 April 2011 to March 2014, and obtained an allowance of Rs.2,770,350 for that work during that period. He had also obtained emolument amounting to Rs. 3,952,323 for serving in the University of Moratuwa during that period.

#### **4.4 Underutilisation of Funds**

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The following observations are made.

- (a) No scholarship whatsoever had been awarded during the 05 preceding years from 25 Funds amounting to Rs. 4,174,191 established from Grants received by the University for the award of scholarship and any activities of 37 scholarship Funds amounting to Rs. 7,566,781 were not observed during the year under review.
- (b) Five Funds amounting to Rs.4,887,358 received as grants, 17 Departmental Funds amounting to Rs.3,812,060 and 12 Courses Development Funds amounting to Rs. 4,556,334 had been idle during the year under review.

#### **4.5 Land not Properly vested**

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The following observations are made.

- (a) The land, about 55 acres in extent, on which the University is situated had not been vested in the University up to date.
- (b) The rates in respect of 05 Properties of the University are being paid up to date in the name of the previous owners. Even though the University should inform the change of ownership to the Local Authority and pay the rates in the name of the University, it had not been so done during a period a several years.

#### **4.6 Staff Administrations**

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Vacancies in 82 posts of academic staff and 71 posts in the other staff of the University existed as at 31 December 2013.

### **5. Accountability and Good Governance**

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#### **5.1 Action Plan**

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Action had not been taken to conduct 04 Postgraduate Courses expected for commencement in the year under review, according to the Action Plan for the year 2013.

**6. Systems and Controls**

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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.

- (a) Loans and Advances Control
- (b) Postgraduate Course Income
- (c) Accounting
- (d) Breach of Agreements
- (e) Attendance of the Academic Staff.