

University of Ruhuna 2013

The audit of financial statements of the University of Ruhuna for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended 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 Section 108(1) of the Universities Act appear in this report. A details report in terms of Section 108(2) and Section 111 of the Universities Act, was furnished to the Vice Chancellor of the University on 05 June 2014.

1:2 Management's Responsibility for 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 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 judgements, 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 to provide a basis for my qualified audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified on the basis of the matters described to the paragraph 2:2 of this report.

2. Financial statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described to in paragraph 2:2 of this report the financial statements give true and fair view of the financial position of the University of Ruhuna as at 31 December 2013 and its financial performance and its 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 Accounting Deficiencies

The following deficiencies were observed.

- (a) The assets valued at Rs.162.95 million purchased by the Improvement of Relevance and Quality of Undergraduate Education Project in the years 2004 to 2010 and transferred to the University had been brought to account in the year under review at cost instead of being brought to account at fair value.
- (b) The purchase of library books and the settlement of advances had not been properly brought to account and as such the Library Books Account had been understated by a sum of Rs.458,867 and the Advances Account had been overstated by that amount.
- (c) The research vessel valued at Rs.17,338,186 purchased in the year under review had been brought to account as advances instead of being capitalized.
- (d) The fair value of 21 motor vehicles included in the balance of the motor vehicles shown in the financial statements for the year under review, had not been shown. The total value of those 21 motor vehicles had been shown as Rs.110,963.
- (e) The value of 35 Buildings Rehabilitation Projects relating to the buildings completed and handed over to the University and being utilized amounting to Rs.79,274,956 and the value of one new construction project amounting to Rs.26,555,747 had not been transferred to the Buildings Account and as such the depreciation on those values had also not been adjusted.
- (f) Instead of disclosing the bursaries and Mahapola Scholarship grants not obtained by the students amounting to Rs.834,900 as a liability as at the end of the year, those had been shown as a deduction from the respective expenditure.

Similarly, a sum of Rs.285,950 that should be debited to the Mahapola not obtained Account had been debited to the Bursaries not obtained Account.

- (g) A balance of Rs.486,094 of the Faculty of Agriculture existing from the year 2011 and not shown in the financial statements and the schedules for the year 2012 had been shown as a balance in the year 2013, thus resulting in a problem on the balancing of the accounts.

2:2:2 Unreconciled Control Accounts

A difference of Rs.9,233,263 was observed between the balances of 09 items of account shown in the financial statements and the balances shown in the subsidiary registers. Details appear below.

Items of Account	Balance according to the Accounts	Balance according to Subsidiary Registers	Difference
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	Rs.	Rs.	Rs.
Advances on Library Books and Periodicals	2,817,164	11,674,391	8,857,174
Closing Stock - Faculty of Engineering	671,164	650,495	20,669
- Faculty of Medicine	1,971,285	1,962,548	8,737
- Faculty of Agriculture	904,822	889,389	5,433
Research Advances	55,189	44,960	10,229
Travelling Advances	1,607,689	1,607,699	10
Research Expenses Advances	177,358	190,000	12,642
International Research Advances	638,680	397,443	241,237
People's Bank Margin Account	22,472,889	22,550,031	77,132

			9,233,263
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2:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) Loan balances totalling Rs.377,575 due from 07 employees had not been recovered as action had not been taken for the recovery of receivables to the University before the release of the gratuities and Employees' Provident Fund money. In addition, action had not been taken for the recovery of that money together with interest from the officers responsible.
- (b) The contributions to the Employees' Provident Fund and the Employees' Trust Fund had not been computed on the Cost of Living Allowance paid during the period from January 2006 to April 2011. Out of the sum of Rs.3,622,864 received in the year 2012 from the University Grants Commission for the payment of the employer's contribution on the Cost of Living Allowance to the Employees' Provident Fund and

the Employees' Trust Fund in respect of the employees who had retired or left the service during that period, a sum of Rs.1,463,480 had been retained in the Sundry Deposits Account without being paid to the respective persons. Action had not been taken either for the prompt payment of the money to the parties concerned or for remitting the money to the University Grants Commission.

- (c) Advances amounting to Rs.811,535 and Rs.1,793,300 paid through the Bank of Ceylon and the People's Bank respectively during the years 1990 to 2012 had not been settled. Action had not been taken either to settle the advances if the goods had been received or for the recovery of the money from the parties concerned if the goods had not been received.
- (d) Out of the money released to the Banks for the payment of Mahapola and Bursaries to the students in the preceding years, a balance of Rs.6,531,050 remained in the Mahapola and Bursaries Accounts as at the end of the year under review due to the students not obtaining the money. Action had not been taken for remitting that money to the University Grants Commission.
- (e) Action had not been taken up to July 2014 for the settlement of the advances amounting to Rs.3,199,601 paid from the year 2006 to the year 2012 for the purchase of library books and periodicals.

2:2:4 Lack of Evidence for Audit

The Fixed Deposit Certificate or the confirmation of the balance relating to the fixed deposit of Rs.150,000 shown in the accounts from the year 1982 had not been furnished to audit.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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(a) (i) Inland Revenue Act, No. 10 of 2006 ----- Section 114	Even though the Pay As You Earn Tax should be recovered on other allowances and fees paid in addition to the allowances paid with the salary, a sum of Rs.12,516,681 had been paid as allowances in the year under review without recovery the tax.
(ii) Inland Revenue Act, No. 10 of 2006 as amended by the Amendment Act, No. 22 of	The Pay As You Earn Tax had not been recovered from the sum of Rs.24,238,524 paid as external lecture fees in the year 2013.

2011 – Section 117(j)

- (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka.
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- (i) Chapter XIX Section 5 Rent in accordance with this section had not been recovered from the Academic and Non-Academic Staff who are in occupation of the official quarters of the University.
- (ii) Chapter XXIV Sections 3.18 and 3.18(i) Even though action should be taken either for the recovery of loans or make arrangements for the Monthly remittance of loan installments and interest before the approval of the no-pay leave, such leave had been approved without taking action accordingly.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
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- (i) Financial Regulation 104 Action in terms of the Financial Regulation had not been taken on an accident to a motor vehicle on 02 April 2013.
- (ii) Financial Regulation 387 Bank overdraft interest amounting to Rs.1,158,514 had been paid on two Bank Current Accounts in respect of the period January to December 2013.
- (iii) Financial Regulation 1646 Even though the Daily Running Charts and Monthly Performance Summaries of motor vehicles should be furnished to the Auditor General before the fifteenth day of the month following, the Daily Running Charts of 23 motor vehicles of the University in respect of the year 2013 had not been furnished to audit as specified.
- (d) Treasury Circular No. 842 of 19 December 1978. Registers of Fixed Assets had not been maintained for the fixed assets of the University.
- (e) Public Finance Circular No. 437 of 18 September 2009. Even though the motor vehicles of the Government institutions should be insured with the Insurance Corporation of Sri Lanka or the

National Insurance Trust Fund, contrary to the provisions, one motor vehicle had been registered through a Sales Agent of the Insurance Corporation of Sri Lanka.

(f) Public Administration Circular No. 41/90 of 10 October 1990 Paragraph 2.11

Even though the fuel consumption of motor vehicles should be tested once in every 06 months, the tests of fuel consumption of 18 out of 49 motor vehicles of the University had not been done up to July 2014.

(g) Circulars of the University Grants Commission

(i) Circular No. 737 of 18 August 1998

Even though the money recovered from the lecturers who breach bonds should be invested in fixed deposits/ Treasury Bills, contrary to that provision a sum of Rs.30,237,101 recovered had been utilized by the University.

(ii) Circular No. 876 of 06 June 2006

A formal methodology of for awarding marks for the structured interview for the recruitment of 17 persons to the post of Computer Input Assistant III had not been prepared and approval obtained from the Board of Governors.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the deficit for the year ended 31 December 2013 amounted to Rs.164,624,000 as compared with the corresponding deficit of Rs.150,391,000 for the preceding year. Accordingly, the financial results for the year under review, as compared with the preceding year, had deteriorated by Rs.14,233,000. The increase in the operating expenditure had been the main reason for the deterioration of the financial results.

3:2 Legal Action Instituted Against the University/ by the University

The University had filed a Case in the Supreme Court while 17 cases had been filed against the University in Courts and Labour Tribunals as at 31 December of the year under review.

4. Operating Review

4:1 Performance

The percentage of failure to complete the degree within the minimum period in the Faculty of Science and the Faculty of Fisheries and Marine Science and Technology had been about 25

per cent and 38 per cent respectively. Accordingly about ¼ of the candidates had not completed the degrees within the minimum period.

4:2 Management Inefficiencies

The following observations are made.

- (a) The construction of two semi-permanent buildings for the Faculty of Management and Finance at a cost of Rs.14,000,000 had been awarded to a contractor on 26 April 2013 and the work had not been completed and handed over even up to 11 March 2014, the date of audit. The particulars of measurements taken for the preparation of estimates had not been furnished to audit. As the additional works not included in the original estimate had been carried out at the quotations of the contractor by utilizing Rs.2,757,124 out of the savings amounting to Rs.3,656,184, the University had been deprived of the competitive benefits that could have accrued. In addition, a sum of Rs.1,500,000 had been allocated for electrical fixtures without detailed works estimate and a sum of Rs.1,080,000 had been paid to the contractor without obtaining approval for the quotations.
- (b) According to the information furnished to audit, the total sum identified by the University as recoverable from the Lecturers who had breached the bonds amounted to Rs.55,421,498 and out of that a sum of Rs.30,237,101 had been recovered by 31 December 2013. As such, the further sum recoverable as at that date amounted to Rs.25,184,397 and that had not been disclosed in the financial statements. Out of that, 24 loan balances totalling Rs.19,189,451 had been loan balances older than 05 years. That represented 76 per cent of the amount recoverable.

The amount recoverable from three lecturers who had vacated posts in the years 1994, 2012 and 2013 had not been computed even by May 2014.

4:3 Transactions of Contentious Nature

The following observations are made.

(a) Hostel taken on rent for Students - Wellamadama Premises

The made hostels and the women's hostel at Pamburana inspected could provide accommodation 274 students and 25 female students respectively. Despite that two hostels had been obtained for a period of one year from 15 May 2013 on the payment of a sum of Rs.600,000. Even though the Government Valuer had determined the monthly rent of one hostel at Rs.25,000 per month subject to the condition that all repairs and maintaining should be done by the owner of the buildings. But the hostels had been taken on rent without including that condition in the agreement. The University had spent a sum of Rs.77,198 up to 07 February 2014 on the repair and maintenance of one hostel. But that building was not fit for providing accommodation for the students. The other hostel had been taken on a monthly rent of Rs.25,000 without a valuation of the Government Valuer and kept unoccupied up

to October 2013. As such the rent of Rs.112,000 paid as rent for that period had become a fruitless expenditure.

- (b) A motor vehicle belonging to the Ministry of Higher Education had been brought to the University on 11 June 2009 and kept deteriorating in the University premises without being used up to 22 May 2014 the date of audit. The Registration Books and the Revenue Licence of the motor vehicle had not been received by the University even up to the date of audit.
- (c) A research vessel for the Faculty of Fisheries and Marine Science and Technology had been built at a cost of Rs.17,338,186 without carrying out a feasibility study or a study of the other alternatives. Even though the vessels had been received by the University on 08 March 2013, the vessel had been anchored at the Galle Navy Camp of the Sri Lanka Navy without being used. Nevertheless, it was revealed that expenditure of Rs.30,000 approximately had been incurred annually for the hire of vessels from the year 2008 to the year 2013 for research purposes.

4:4 Apparent Irregularities

The following irregularities arising from the weaknesses in the financial and assets management were revealed.

- (a) A sum of Rs.189,000 recovered during the period 01 January 2011 to 15 October 2013 for the medical researches done by the Nuclear Science Studies Division of the Faculty of Medicine of the University had been defrauded without issuing receipts.
- (b) A shortage of 12 gas cylinders, a two burner gas cooker and 04 gas regulators valued at Rs.47,077 was observed in the Kuwait Male Hostel of the Faculty of Medicine.

4:5 Underutilization of Funds

The following observations are made.

- (a) A sum of Rs.2,188,808 received for 18 projects implemented on research grants remained idle in the year under review without being utilized.
- (b) Sums totalling Rs.1,504,485 of 03 Project Accounts (Agriculture/ Medical/ Science) not under implementation, had been idling over a number of years. Action had not been taken either for the return of the money to the donors or for writing back to the income of the University.
- (c) A sum of Rs.2,814,484 received in the years 2011 and 2012 for various projects remained in the Sundry Deposits Account up to 31 December of the year under review. Action had not been taken either for the utilization of the money for the expected objectives or for the return of the money to the donors or for writing back to the income of the University.

- (d) A sum of Rs.1,826,604 received under the research grants for 09 sundry projects of the Faculty of Agriculture of the University had been idling over periods ranging from 01 year to 04 years.

4:6 Identified Losses

An agreement had been entered into on 13 December 2011 for the purchase of 06 servers valued at Rs.2,620,140 for the different Academic Division in the Wellamadama Complex of the University and in accordance with the agreement the goods should be supplied within 08 weeks. Nevertheless, the entire amount had been paid to the supplier without recovering the liquidated damages for the delays amounting to Rs.262,017.

4:7 Deficiencies in the Contract Administration

A stock of 1,000 concrete drain covers had been purchased on 31 December 2013 for Rs.1,456,000 without a proper cost estimate. According to the limited quotations invited for this purpose in the first instance, only one supplier had offered the supply of the covers with 5 year guarantee period at Rs.1,425 per cover (inclusive of the Value Added Tax). Even though quotations had been invited again, the guarantee period had not been indicated. The purchase had been made without a laboratory test on the stressing of the covers and the strength of the concrete.

4:8 Staff Administration

The vacancies in the non-academic staff and the academic staff of the University as at 31 December of the year under review had been 154 and 101 respectively.

4:9 Buildup of a Fund for the Provision for Employees' Gratuity

The provisions allocated as at 31 December of the year under review amounted to Rs.356,357,000 and the funds in this connection had not been invested.

5. Accountability and Good Governance

5:1 Action Plan

An Action Plan for the year under review had not been prepared in terms of the letter No. PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of the Public Finance.

5:2 Budgetary Control

Even though the budget should be prepared in accordance with the Corporate Plan by paying attention to the Corporate Plan, such attention paid was not observed. As certain financial data had not been included in the Corporate Plan prepared the budget could not be compared with the Corporate Plan. Certain items of income and the expenditure had not been estimated realistically in the preparation of the estimates for the year under review.

5:3 Tabling of Annual Reports

The Annual Report for the years 2011 and 2012 had not been tabled in Parliament even by 31 May 2014.

5:4 Observations on the Unsettled Audit Paragraphs

The attention of the administration of the University was drawn through audit queries in 09 instances from 03 December 2009 on the recovery of rent from the officers occupying the official quarters of the University. This matter was discussed at the meeting of the Committee on Public Enterprises held on 04 October 2012 and arrived at a decision. Nevertheless, that decision had not been implemented even up to 22 May 2014.

6. Systems and Controls

The 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) Accounting
- (b) Motor Vehicles Control
- (c) Recovery of Rent on Official Quarters
- (d) Settlement of Advances
- (e) Recovery of Money from the Lecturers/ Officers who had breached the Agreements
- (f) Inventory Control