

Eastern University of Sri Lanka - 2014

The audit of financial statements of the Eastern University of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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. A detailed report in terms of Sub-section 108 (2) of the Universities Act will be issued in due course.

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 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 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 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 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 2014 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 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Assets such as buildings and furniture taken over from the Staff Development Centre, Buttala in the year 2011 had not been valued and brought to accounts.
- (b) The assets such as furniture, equipment, books and vehicles at the total value of Rs.19,411,037 were lost during the year 1990 due to the war situation prevailed in the Batticaloa District. However, no adjustments had been made in the accounts in this regard even up to the end of the year under review.
- (c) After completion of the Project for Improving Relevance and Quality of Undergraduate Education (IRQUE) in 2011, the assets of the Project such as computers, furniture, books and equipment had been handed over to the University. However, those assets had not been valued and brought to accounts.

2.2.2 Accounts Receivable

The following observations are made.

- (a) Loan balances aggregating Rs. 9,716,548 recoverable from 307 officers who were retired, vacated their post and transferred out from the University had remained outstanding for more than 05 years. Nevertheless, the University had not taken meaningful action even up to 30 June 2015 to recover those outstanding loan balances or to take legal action against the officers concerned.
- (b) Advances aggregating Rs. 5,000,378 granted to foreign suppliers were lying in 135 import advance accounts for over 10 years without being taken action to investigate the recoverability of those advances from the respective suppliers.

- (c) Advances aggregating Rs. 14,604,399 paid to various suppliers had remained unrecovered for a period ranging from 05 to 18 years without taking action to recover them.

2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions etc.

 Instances of non-compliance with laws, rules and regulations observed in audit are given below.

Reference to Laws, Rules and Regulations

Non- compliance

- a) 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 academic and non academic staff had not been reported monthly to the Auditor General in Form General: 96.

(ii) Section 3:1 of Chapter- XXVII

The University had not taken necessary measures to maintain an Attendance Register in order to record the arrival and departure of academic staff. In this regard, the Competent Authority had informed me that, by tradition the academic staffs do not record their attendance as in all other Universities.

- (b) Financial Regulations of the Government
 of Democratic Socialist Republic of Sri
 Lanka

 (i) Financial Regulations 102 to 105

(i) A vehicle belonging to the University had met with an accident and a sum of Rs.1,563,073 had been spent during the year under review to repair that vehicle. However, action had not been taken to conduct inquiries to ascertain the extent and cause of losses and to fix the responsibilities.

(ii) According to the physical examination carried out as at the end of the year under review, there were shortages of 913 inventory items at the Vice Chancellor's Bungalow. In this regard, the University had not taken action to conduct inquiry to ascertain the extent of loss and fix the responsibilities.

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. 863,344,968 before taking into account the Government Grant of Rs. 777,087,000 for recurrent expenditure as compared with the corresponding deficit of Rs. 765,406,686 for the preceding year before taking into account the Government Grant of Rs. 621,470,000 for that year, thus indicating a further deterioration of Rs. 97,938,282 in the financial results for the year under review. The increase of personal emoluments by Rs. 77,049,832 during the year under review as compared with the previous year had mainly attributed for this deterioration in the financial results.

4. Operating Review

4.1. Performance

The academic performances of the University during the year under review are as follows.

(a) Results of Examinations

Details of final examinations held in 2014 and the number of graduates passed out 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
Number of students sat for final examinations during the year under review	38	289	165	19	36
Number of students passed the examinations	38	289	95	12	36
Percentage of students passed degree examinations, as a percentage of number of students sat for the final examinations	100%	100%	58%	63%	100%

The following observations are made in this connection.

- (i) The results for Bachelor of Business Administration degree of the Faculty of Commerce and Management had not been released during the year under review and

it was released only in January 2015. Accordingly the total number of students passed in both stream such as Bachelor of Commerce and Bachelor of Business Administration was 142 and the faculty pass rate was 89 per cent.

- (ii) According to the information furnished by the University the passing rates at first attempt are considerably lower in the Faculty of Science due to be more in-depth study of fundamental science (pure science), which includes construction/formation of theoretical concepts from first principles, and then develop to understand the model real world situations.

(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		
	2014	2013	2012	2014	2013	2012
Agriculture	118	83	65	22	27	18
Arts and Culture	210	276	543	311	374	305
Commerce and Management	208	201	180	81	96	54
Science Health Care Sciences	192	214	151	34	57	27
	89	80	101	42	27	-
Total	<u>817</u>	<u>854</u>	<u>1,040</u>	<u>490</u>	<u>581</u>	<u>404</u>

The following observation is made in this connection.

Enrollment of students to the Faculty of Agriculture during the year under review had increased by 42 per cent, whereas, enrollment of students to the Faculty of Arts and Culture, Faculty of Science during the year under review had decreased by 24 per cent and 10 per cent respectively.

(c) Library Administration

The following observations are made in this regard.

- (i) Fifty two (52) library books borrowed by 15 academic staff had been retained for period ranging from 01 year to 05 years without returning them within the stipulated time period. However, the University had not taken action to get those books or to impose a fine of Rs. 430,684 for delays.

- (ii) Books to the cost of Rs. 675,020 damaged due to flood, fungi and insects had not been written off from the books of account.

4.2 Operating Inefficiencies

4.2.1 Procurement of Wooden Bunk Beds and Study Tables for Student Hostels

A contract valued at Rs. 44,559,000 had been awarded to a private supplier in Akkaraipattu on 15 August 2014 for supply of 600 bunk beds and 400 wooden study tables. The following observations are made in this regard.

- (i) According to clause 26 of the general terms and conditions of the contract agreement, the performance security to the value of Rs. 4,455,000 should have been submitted before 25 August 2014. However, the contractor had not submitted the performance security as requested.
- (ii) The supplier had supplied 200 bunk beds and 25 study tables at the total value of Rs.11,632,500 during the period from 10 October 2014 to 03 November 2014 without obtaining purchase order from the University. However, the University had issued purchase order to the relevant supplier after receiving all the goods.

4.2.2 Procurement of Building on Lease Basis for Students Hostels

- (a) The University had obtained a building on lease basis at St.Joseph's Girl's Home, Thannamunai, Batticaloa in order to provide accommodation facilities to 250 female students. The following observations are made in this regard.
 - (i) According to the valuation report submitted by the District Valuer of the Department of Valuation, the monthly rental for this building was Rs. 170,000. However, the University had paid a sum of Rs. 400,000 as monthly rental without considering the value assessed by the District Valuer. As a result, a sum of Rs.1,150,000 had been overpaid during the year under review as rental to the owner of the building.
 - (ii) The University had not followed Government Procurement Procedure to obtain a suitable and cost effective building on lease basis to use as student hostel in terms of Guideline 2.14.1 of the Procurement Guidelines- 2006.
- (b) The University had obtain another building at Puliyaadikudah, Batticaloa at a monthly rental of Rs.130,000 since 01 May 2014 in order to provide accommodation facilities to 65 female students. However, according to the valuation report of the District Valuer of the Department of Valuation, the monthly rental for this building was Rs.82,500. As such, an amount of Rs.570,000 had been overpaid during the year under review as rental to the owner of the building.

4.2.3 Procurement of a Generator for Vice Chancellor's Bungalow

The University had purchased a generator during the year under review from a private company for Rs.1,675,610 to use at the Bungalow of the Vice Chancellor. The supplier had agreed to provide services free of charge within the warranty period. However, the University had not made use of this service and as such the generator was not in working condition for over 2 months during the warranty period due to improper maintenance of the generator.

4.2.4 Landscaping and Planting of Trees at the University Premises

The University had spent a sum of Rs.1,752,740 during the year under review for landscaping and planting of trees at the main entrance building complex of the Faculty of Science to mark the visit of then President and opening of the building complex of the Faculty of Science. The following observations are made in this regard.

- (a) The University had selected a contractor for this purpose who had been recommended by the Consultant of the Higher Education for Twenty First Century (HETC) Project of the Ministry of Higher Education without following the open competitive bidding procedure in terms of Guideline 2:14:1 of Procurement Guidelines -2006.
- (b) Even though the contractor had commenced the relevant works on 18 April 2014, the Departmental Procurement Committee (DPC) had selected the said contractor only on 01 July 2014 after completion of the works.
- (c) The payment of Rs. 1,752,740 had been made to the contractor based on the rate submitted by the contractor without considering the prevailing rates for similar plants in the market or obtained from other similar suppliers.

4.2.5 Purchase of Household Items to the Vice Chancellor's Bungalow

The household items such as dining tables, bed room suite, fitness equipment, sofa set, beds and chairs to the value of Rs.1,447,873 had been purchased from a contractor on 12 March 2013.

The following deficiency was observed in this regard.

A bogus quotation in loose leaf with several alterations obtained from a supplier in Moratuwa on 12 March 2013 had been approved by the Vice Chancellor for the purchase of above mentioned goods instead of being followed a procurement procedure in terms of Guideline 2.14.1 of Procurement Guidelines-2006. Further, the University had lost a sum of Rs.131,625 due to the payment of 10 per cent margin in addition to the price quoted by the supplier.

4.3 Management Inefficiencies

The following inefficiencies were observed.

- (a) According to the meeting of the Audit Committee held on 24 June 2014, it was decided to recover the loss of Rs.4,233,370 sustained on the procurement of 155 computers and

06 UPS from 03 officers of the University. However, the above loss had not been recovered even up to 30 June 2015. In this regard, the Competent Authority had informed me that, it was decided to appoint a three member Committee for study and review the recommendations and report submitted by the Inquiry Officer for the disciplinary inquiry carried out on the said matter.

- (b) According to the agreement signed on 23 June 2012, the consultancy works for the preparation of Master Plan of the University, Trincomalee Campus and Swami Vipulananda Institute of Aesthetic Studies (SVIAS) should have been completed within 03 months from 16 April 2012. However, the works had not been completed even up to 30 June 2015.
- (c) Seventy four (74) 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. 160,937,945 from 74 lecturers for breach of agreements even up to 30 June 2015. In this regard, the Competent Authority 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 against them and to recover the dues from the defaulters.
- (d) Advances should have been recovered from the lecturers before granting leave for scholarships in abroad. However, the University had granted leave for scholarship without recovering their outstanding advance balances aggregating Rs. 204,551 from 05 lecturers who breached bond agreements.
- (e) According to Section 72 (1) of the Universities Act, No. 16 of 1978 and Section 21.1.1 of Chapter III of the Establishments Code for the University Grants Commission and Higher Educational Institutions, a lecturer should complete postgraduate degree within 08 years in the post of lecturer (probation) to be promoted to as Senior Lecturer Grade - II. However, seventeen lecturers who had not completed the postgraduate degrees within the specified period had been promoted to as Senior Lecturer Grade II without taking action to revert back them to the post of Temporary Lecturers.
- (f) An old building of the University Guest House had been renovated by spending Rs.13,399,453 during the year under review and valuable goods such as fans, bulbs, generator and switches removed from this building had been handed over to the Electrician of the University on 30 August 2012. However, the University had not taken action to include those items in the inventory register maintained at Vice Chancellor's Bungalow.
- (g) The then Vice Chancellor had left the University with effect from 05 March 2015. However, the University had not taken action to recover loan balances of Rs.45,182 from him.

4.4 Human Resources Management

There were 23 vacancies in key academic posts including Professors for five Faculties of the University. Further out of 64 vacancies in the academic staffs, 41 vacancies exist for the post of senior lecturers and lecturers. However, the University had not taken action to fill those vacancies even up to 30 June 2015.

4.5 Assets Management

Although the medical equipment called “eight accessories of the tissue processor” had been procured at a cost of Rs. 4.5 million during the year 2012, it had remained idle at the Faculty of Health Care Sciences from the date of purchase due to failure to purchase the main part of tissue processor.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review should have been rendered for audit within 60 days after the close of financial year. However, the financial statements of the University for the year under review had been rendered for audit only on 16 June 2015.

5.2 Internal Audit

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

5.3 Procurement Plan

A Master Procurement Plan including activities expected to be fulfilled at least within a period of three years in terms of the Section 4.2.1. (a) and 4.2.3 of the Procurement Guidelines had not been prepared.

5.4 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 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 systems and controls.

- (a) Accounting
- (b) Assets Management
- (c) Recovery of Loans and Advances
- (d) Contract Administration
- (e) Human Resources Management