

Rajarata University of Sri Lanka - 2014

The audit of financial statements of the Rajarata 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 Rajarata University of Sri Lanka in terms of Sub-section 108(1) of the Universities Act, appear in this report.

1.2 Management’s Responsibility 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 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 the 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 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 Rajarata 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 Sri Lanka Public Sector Accounting Standards

Interest of Rs. 680,877 paid for the loan facility obtained by the University by submitting its fixed deposits as the security had been set off against the interests received from the fixed deposits and as such the requirement of disclosing financial expenses separately in the financial statements as required by the Sri Lanka Public Sector Accounting Standard No.01 had not been fulfilled relating to the interest expenses of Rs.680,877.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a). Instead of showing the mobilization advance of Rs.518,740 given for the access road construction contract as current assets, it had been shown under non-current assets considering as a capital expenditure .
- (b). Action had not been taken to compute and include in the financial statements the value of 02 hostels vested for the use of students after completion of the construction and the capital assets the value of which could be precisely identified amounting to Rs.8,532,942 purchased for those hostels had been shown as work-in-progress.
- (c). Although Mobilization advances amounting to Rs.875,407 paid relating to the milk and meat processing centre of the Faculty of Agriculture had been recovered, it had been further shown as advances instead of being shown under work-in-progress.
- (d). House rental of Rs.483,068 paid for the ensuing year had been brought to account as an expenditure of the year under review.
- (e). Instead of being capitalized the assets purchased from the funds received as a donation from the National Science Foundation in the preceding year, it had been shown by deducting from the Grants Account. Accordingly, the value of the purchased assets amounting to Rs.1,750,000 was not disclosed as assets and the Government grants as well had been understated by that amount. Under this circumstance, provisions for depreciation had not been made in respect of these assets.

- (f) A sum of Rs.7,326,743 paid to a contractor in respect of the construction of a wall around the Vice Chancellor's quarters had been capitalized without being established that the work was completed.
- (g) Interest of Rs.321,584 received for the fixed deposits amounting to Rs.43,000,000 encashed during the year under review had been omitted from the financial statements.
- (h) The following observations are made with regard to a sum of Rs. 217,859,998 included in the income statement as the annual depreciation of assets of the year under review.
 - (i) Although motor vehicles valued at Rs.1,279,860 purchased in the year 2008 had been totally depreciated from the year 2009 to 2013, as depreciation amounting to Rs.194,209 had been made for the year under review, the surplus and the non-current assets of the year had been understated by that amount.
 - (ii) According to the depreciation policy of the University, computation of depreciation should be carried out, based on the date of purchase of the assets. Nevertheless, depreciation in respect of the amount relevant to the year under review had not been computed for 17 assets purchased in the year 2009 and as such annual depreciation expenditure had been understated by Rs.9,411,811. Accordingly, the surplus and the non-current assets of the year had been overstated by that amount.
- (i) Without being taken action to capitalize the capital expenditure of Rs.1,494,736 incurred for the construction of buildings of the University under the relevant assets, it had been shown under the assets rehabilitation expenditure.
- (j) The income amounting to Rs.1, 244,887 earned from the sale of old goods of the University had not been shown under the investment activities being eliminated from the operating activities of the cash flow statement.

2.2.3 Unreconciled Control Account

According to the annual financial statements, the balance of the Works Advance Account amounted to Rs.38,372,097, whereas according to the relevant detailed schedule the said balance amounted to Rs. 38,723,063. Accordingly, a difference of Rs.350,966 was observed .

2.2.4. Lack of Evidence for Audit.

The following observations are made

- (a) In order to examine the fuel expenditure of Rs.2,657,133 included in the income statement of the year under review and the fuel expenditure of Rs.7,478,277 and vehicle maintenance expenditure of Rs.4,436,025 included in the income statement of the year 2013, the vehicles running charts had not been furnished to audit.

- (b) Running charts had not been signed by the officers who were responsible for travelling of 5,904 kilometers in 50 instances during the year under review and as such evidence in support of the tours relating to the fuel expenditure of Rs.87, 397 had not been furnished to audit.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

According to the paragraph 03 of the Public Finance Circular No.431 of 24 April, 2008, in case of travelling abroad, purchasing of airline tickets and planning of air travels should be done through B.O.C. Travels (Pvt) Limited and People’s Travels (Pvt) Limited which are fully owned subsidiaries of State Banks. Nevertheless, airline tickets valued at Rs.63,000 for two officers participated in a foreign seminar in Bangalore had been purchased from an institute not specified in the circular.

2.4 Transactions Not Supported by an Adequate Authority

The following observations are made

- (a) In terms of the Paragraph 2.1.5 of No.1/14 Budget Circular No.BD/CBP/4/1/14/2014 dated 01 January 2014, all the payments made in respect of the employees of the institution should be in compliance with the circulars issued under the approval of the General Treasury and the payments which are not covered by such circulars should be made only with the recommendation of the Secretary to the Ministry and the concurrence of the General Treasury. Nevertheless, contrary to that, Professors, Senior Lecturers and the Probationary Lecturers of the academic staff of the Faculty of Medicine had been paid at Rs.100,000, Rs.80,000 and Rs.50,000 per month as retention allowances respectively and the total of the allowances so paid during the year under review amounted to Rs.4,782,500.
- (b) In accordance with the University Grants Commission Circular No.07/2014 dated 17 July 2014, it had been specified that action should be taken to enroll an additional number of students of 10 per cent based on the 2011/2012 academic year, arrangements should be made to organize an innovative programme to increase the demand, in case, the demands of the students are declining and that an additional allowance of 20 per cent of the basic salary could be paid to the academic staff and non-academic staff as an incentive for that purpose. Nevertheless, enrollment of students except for the Faculty of Agriculture had not taken place as expected manner and despite the failure to reach the expected target of enrollment of students in the academic year 2013/2014 as compared with the academic year 2011/2012, the entire academic and non-academic staff of the University had been paid this allowance.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University for the year ended 31 December 2014 had resulted in a surplus of Rs.4, 645,369 as against the deficit of Rs.18,154,195 for the previous year thus showing an improvement of Rs.22,799,564 in

financial results in the year under review. The increase in the income generated by external courses by Rs.19, 816,282 had mainly attributed to the improvement in financial results of the year.

4. Operating Review

4.1 Cost per student

The cost per student in the year under review was Rs.112,803 and it stood at Rs.89,734 in the preceding year. When each faculty is considered, the highest cost per student of Rs.283,170 was reported from the Faculty of Agriculture and it was Rs.53,162 of the Faculty of Social Sciences. The enrollment of lesser number of students to the Faculty of Agriculture than the other faculties had been the reason for the increase in the cost per student.

4.2 Operating Inefficiencies

Despite the availability of the financial provisions totalling Rs. 34,268,598 comprising the investment of Rs.18 million granted by the Treasury to take over 40 Police Quarters situated at the University premises to the University in 2006 and its interest, without taking action to take over those Police Quarters on the payment of the above money, a sum of Rs.24,004,800 had been paid from the University Fund as house rental in order to obtain 61 private houses on rent basis for the students hostels during the year under review.

4.3 Delayed Project

The following observations are made

- (a) In order to acquire a land of 15 acres in extent for expanding the Faculty of Agriculture, a sum of Rs.7, 200,000 had been deposited with the Madyama Nuwaragam Palath Divisional Secretary in the year 2011. Nevertheless, the relevant acquisition had not been concluded up to the end of the year under review.
- (b) It was observed that the constructions of female hostel of the Faculty of Agriculture and the laboratory of the Faculty of Applied Sciences scheduled to be completed within the year under review had been delayed for a period from 03 months to 08 months by 31 March 2015, the date of audit.

4.4 Personal Administration

- (a) Hundred and eighteen posts of the academic staff and 81 posts of the non-academic staff had remained vacant during the year under review.
- (b) Among the vacancies of the academic staff, there were 48 vacancies of Professors, Senior Lecturers and Probationary Lecturers of the Faculty of Medicine and Allied Sciences and 36 visiting lecturers had been employed in lieu of those vacancies and got the academic function carried out by them.

4.5 Weaknesses in the Contract Administration

- (a) The following weaknesses in the contract administration were observed in the supply and fixing of curtains valued at Rs.2,583,585 for the requirement of the University during the year under review.
- (i) These purchases had been made from the Laksalusala on direct contract method without giving the opportunity to the qualified interested parties to participate in this connection, extraneous to the opportunities capable of awarding direct contracts as per the Guideline 3.5.1 of the Procurement Guidelines, 2006.
 - (ii) In terms of the Guideline 2.14.1 of the Government Procurement Guideline 2006, the maximum financial limits allowed for making purchases under the direct contract method is Rs. 250,000. Nevertheless, the contract for the purchase of curtains amounting to Rs.2,583,585 exceeding the above limit had been awarded under the direct contract method outside the bidding procedure.
 - (iii) Advances of 50 per cent of the contract value had been paid exceeding 20 per cent advances limit payable according to the Guideline 5.4.6 of the Government Procurement Guidelines.
 - (iv) According to the Guideline 5.4.6 of the Government Procurement Guidelines, certain portion of money should be retained as retention money for a specific period after completion of the supply or the service. Nevertheless, without doing so, the total amount of money had been released.
 - (v) Without being obtained a Performance Security of 5 per cent for awarding a contract in terms of the Guideline 5.4.8(a) of the Government Procurement Guideline, the contract had been awarded.

4.6 Management Inefficiencies

The following observations are made.

- (a) Since 06 external hostels had been taken on rent as female hostels of the Faculty of Agriculture, the contract amounting to Rs.110,195,344 awarded for the construction of a female students hostel for providing hostel facilities to 250 students of that Faculty had to be completed on 31 July 2014. Nevertheless, it had not been completed even by 31 July 2015 and as a result a sum of Rs.1,072,500 had to be further paid as the rental of the hostel from the scheduled date of completion of the contract up to 31 December of the year under review. Accordingly, a loss of Rs.1,072,500 had been incurred by the University Fund due to non- completion of the construction within the prescribed period and the weaknesses of the construction supervision. The Mobilization Advances not recovered from the contractor was Rs.11,872,672.
- (b) The project for the construction of the Laboratory and lecture halls of the Faculty of Applied Sciences according to the Turn Key Basis in terms of the Cabinet Decision No.HE/D/2013/32 dated 08 May 2013 without calling for competitive bids as per the Procurement Guidelines had been delayed by 8 months as at 30 August 2015 from the schedule date of its completion. Although this project had been delayed due to the

contractor's fault, the University had paid a sum of Rs.96,914 to the contractor as price variance during the year under review and the unrecovered Mobilization Advances amounted to Rs.6, 437,562.

- (c) Despite the availability of a vehicle fleet for the official and the staff requirement of the University, 08 vehicles had been deployed on hire basis for that purpose and a sum of Rs.6,265,784 had been paid as the vehicle rent charges during the year under review.
- (d) Procurement documents prepared for the award of contract for supplying garden maintenance services of the University included the conditions that discourage the competitiveness and as such in the all bids conducted from the year 2008 up to the year under review, the bids had been awarded to a same institution while any bidder had not fulfilled the required qualifications. The said institution had obtained the bid from the year 2008 up to the year under review by increasing the bid value from Rs.4,302,365 to Rs.24,068,615 yearly and as such an immense expenditure had to be incurred for the garden maintenance of the university and that expenditure had exceeded Rs.24 million relating to the year under review.

4.7 Identified Losses

According to the report of the Board of Survey conducted on the library books during the year under review, there was a shortage of 3,807 books the value of which could not be identified and 4,152 books had been heaped up without being utilized.

5. Systems and Controls

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

- (a) Fixed Assets Control
- (b) Contract Administration
- (c) Budgetary Control
- (d) Human Resources Management
- (e) Control over Vehicles.