

## **Sabaragamuwa University of Sri Lanka - 2014**

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The audit of the financial statements of the Sabaragamuwa 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 equity and the 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) 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 the 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 judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the University’s preparation and fair presentation of 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 the 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 audit evidences I have obtained is sufficient and appropriate 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 Sabaragamuwa 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**

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

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Actual cash out flow of Rs.262,614,397 for acquiring fixed assets during the year under review had been recorded as Rs.252,627,757 in the cash flow statement in contravention of Sri Lanka Public Sector Accounting Standard No.02.

#### **2.2.2 Accounting Policies**

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Although the University's policy for accounting for income and expenses is accrual basis, the receipt of Rs.59,252,600 and payment of Rs. 47,786,600 for Mahapola and bursaries had been accounted on cash basis, in the year under review.

#### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) In the year under review, other equipment purchased at a cost of Rs.24,695,682 were not taken into account for the calculation of depreciation for the year and hence the depreciation for the year had been understated by Rs.4,939,136.
- (b) Even though the depreciation on government grants in the year under review was Rs. 206,932,538, the amount amortized as deferred income was Rs.206,569,272. Due to continuous accounting deficiencies of this nature, even though the value of the total government grants at the end of the year was Rs.2,263,300,000, the value of net assets represented by that was Rs.2,069,087,715.
- (c) Amount of Rs.41, 109,618 receivable from respective parties who agreed to repay, for breach of contracts by 07 officers, had not been included in the Statement of Financial Position as a receivable amount.
- (d) No action has been taken to recover the amount of Rs.235, 719 paid in excess of the amount due to Bandaranayaka Memorial International Conference Hall, for the convocation held on 09 December 2014, or to account for the same as a receivable amount.

#### **2.2.4 Lack of Evidence for Audit**

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Details of periods and reasons for debit entries of Rs. 48,214,484 and credit entries of Rs.11,272,298 passed for provision of accumulated depreciation of the year under review, were not made available for the audit.

#### **2.2.5 Un-reconciled Control Accounts**

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It was observed that yearly totals of the assets were casted erroneously as there was a difference of Rs. 862,091,260 in 04 non current asset items when checking additions to non current assets in the schedules used for calculating depreciation submitted with financial statements in the year under review and additions to assets in the financial statements from the year 2005.

#### **2.3 Receivable and Payable Accounts**

The following observations are made.

- (a) Recovery of 22 employee loan balances receivable amounting to Rs.596,856 had been suspended at the end of the year under review.
- (b) Action had not been taken to clear tender deposits, retentions and 64 balances of bidding guarantees amounting to Rs.29,450,645 aging 03 to 08 years.
- (c) Action had not been taken in the year under review to recover the debtor balance of Rs.105,525 coming from proper to year 2003.
- (d) Unclaimed wages as at 31 December 2014 of the year under review was Rs.174,860 including an amount totaling Rs.103, 377, coming from year 2011.
- (e) An expenditure of Rs.353,640 has been incurred for the advertisement published by the Ministry of Higher Education for the opening of two buildings in two faculties of the University on 31 March 2012. Even though the Media Secretary to the Ministry of Higher Education has informed to recover this amount from Construction Engineering and Consultancy Bureau, it had not been recovered even by 31 December in the year under review.
- (f) A sum of Rs.4,699,075 was accounted as receivable as at 31 December 2009, in taking over the Applied Science Faculty premises at Buttala, by the University Grants Commission, and there was a further receivable amount of Rs.1,616,894 as at 31 December in the year under review. Steps were not taken to clear the amounts due even though more than 05 years had elapsed.

**2.4 Non – compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non – compliance with the laws, rules, regulations and management decisions were observed.

**Reference to Laws, Rules, Regulations  
and Management Decisions**

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**Non - compliance**

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| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka |  |
| (i) Financial Regulations 168 and 200                                       | Actions were not taken to credit received from the contracted institution amounting to Rs.30,000 to the University Fund according to the Clause 08 of the agreement signed in relation to the photography of the convocation of the University held in the year under review.  |
| (ii) Financial Regulations 571(2)   | Even though steps have taken to set off 77 tender deposits amounting to Rs. 342,500 coming from the year 2008 and retentions amounting to Rs. 2,811,636 coming from the year 2005, against the General Reserve Account, confirmations of non-claimant were not obtained from deposit holders.                                |
| (b) Public Finance Circular No.449 dated 24 February 2011                   | exceeding 45 days is Rs. 30,000, the an appointment was given, in contravention of that for the post of full time Hostel Sub Warden Grade II on the assignment basis, for a monthly allowance of Rs.38,040 for a period of six months, without prior approval of the Department of Public Finance.                           |
| (c) Procurement Guideline – 2006  |  |
| (i) Section 3.6.1   | Though the quantity required was known at the time of calling bids for the requirement of 1050 chairs for the lecture hall of the faculty of Social Science and Languages and the Auditorium 700 and 350 chairs had been purchased in two instances in the year 2012, spending Rs.5,286,120, against the clause referred to. |
| (ii) Section 9.3.1 (b)  | Even though the approval of Secretary to the line ministry is required for the vehicle repairs above the value of Rs.200,000 a total amount of Rs.1,323,125 was paid for   |

repair of three vehicles in the year under review without obtaining the approval.

(iii) Section 2.14.1

Even though the direct payments can be made only in emergency situations, contrary to that procedure, the contract was awarded for 03 months, for the maintenance of the University's playground, at a price of Rs.825,000 without calling tenders.

(d) Treasury Circular No.IAI/2002/02 dated 28 November 2002

A Register of Computer Assets had not been maintained for Rs.208,466,511 worth of computers.

(e) Treasury circular no.842 dated 19 December 1978

A Register of Fixed Assets had not been maintained

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operating activities of the University the year ended 31 December 2014 had resulted in deficit of Rs.59,919,196 as compared with the corresponding deficit of Rs.47, 093,974 for the preceding year. Accordingly, a decrease of Rs.12, 825,522 in the financial results was observed in the year under review as compared with the preceding year.

#### **3.2 Analytical Financial Review**

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Even though the government's contribution and other income have increased by Rs. 140,377,891 and Rs.6,303,274 respectively in the year under review as compared with the preceding year increase in personal emoluments , contracted services, other recurrent expenditure, supply and consumption and maintenance expenses by Rs.117,119,956, compared to the preceding year and the disposal loss of Rs.43,446,162 arising from removing land and buildings at Buttala from the books, were the major reasons for the decrease.

### **4. Operating Review**

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#### **4.1 Performance**

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The cost incurred for the education of 3,424 students during the year under review amounted to Rs.1,045,290,171 and the cost per student was Rs.305, 283. In the preceding year the

cost incurred for the education of 3,359 was Rs. 724,914,540 and the cost per student was Rs.215, 813. Accordingly, the number of students had increased by 65 and the cost per student was increased by Rs.89,470 during the year under review as compared with the preceding year.

#### **4.2 Transactions of Contentious Nature**

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The following observations are made.

- (a) Even though a capital expenditure of Rs. 1,420,450 was incurred in the year under review for revision of syllabus, the syllabuses were not revised even by May 2015 and failed to report the progress.
- (b) The transparency of the decisions taken by the members of the department's procurement committee could not be satisfied in audit as the period of the contract of Rs.8,514,000 for cleaning services of the university has been extended for another 06 months without acceptable reasons, by indicating that there are technical errors in the bid documents when offering contracts to outside parties.

#### **4.3 Underutilization of Funds**

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It was observed that twelve funds maintained by the University, amounting to Rs.4,606,911 were inactive over the periods from 2 to 5 years.

#### **4.4 Idle and Underutilized Assets**

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Two tractor trailers, 25 fiber chairs, 02 plastic tanks of 5,000 liters and 03 tanks of 2,000 liters kept unsecured at vehicle parking premises without being used.

#### **4.5 Deficiencies in Contract Administration**

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Cabinet approval was granted to build an Information Technology building and an Administrative building in year 2005 and 2007 respectively. Even though the construction works were not commenced up to May 2015, a sum of Rs. 3,337,508 had been spent as consultancy fees and for the plaque.

#### **4.6 Uneconomic Transactions**

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The following observations are made.

- (a) Even though a drinking water well for the Faculty of Management was built in a disorderly manner, in a rain water drainage by spending Rs. 760,767 without carrying out a proper feasibility study in the year under review, it was observed that water is not good for drinking.

- (b) Even though it was mentioned that the pumping rate of the tube well which was being constructed near to new female hostel at a cost of Rs.1,050,196 was 135 liters per minute, the actual pumping rate is 20 liters per minute. However the well was not yet used.
- (c) Due to purchase of air conditioned machines for a value of Rs.4,263,600 which are not compatible with the single phase electrical system of the University, an additional expenditure of Rs.871,820 had to be incurred to renovate the existing single phase electrical system.

#### **4.7 Personnel Administration**

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The following observations are made.

- (a) Six positions were vacant out of 212 approved academic cadre for the university, as at 31 December 2014 and 03 vacancies out of that were for the post of Professor and the other 03 vacancies were for the post of Senior Lecturer.
- (b) The University has failed to recruit the Bursar of the University according to Section 33 in the Part vi of the Universities Act, No.16 of 1978.
- (c) There were 31 staff grade posts and 495 non-staff grade posts in the approved cadre for non academic staff of the University as at 31 December 2014 and out of them, 07 posts and 58 posts were vacant respectively. The authorities of the University had failed to fill those vacancies.

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

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#### **5.1 Corporate Plan**

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A review of operating results of the prior three years, was not included in the Corporate Plan prepared for the period term year 2011 to 2015 according to the paragraph 5.1.2 of the Public Enterprise Circular No.PED/12 of 02 June 2003. The Corporate Plan had not been prepared in such a way to evaluate the annual progress as monetary values of the targets to be achieved were not included.

#### **5.2 Internal Audit**

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According to the section 134(3) of Financial Regulations of the Democratic Socialist Republic of Sri Lanka, copies of the internal audit reports of a department should be submitted to the Auditor General. Nevertheless, such copies had not been submitted.

### **5.3 Budgetary Control**

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A sum of Rs.64,125,390 had been spent exceeding the estimated limits for revenue expenditure, and as a percentage it was 9 percent. Out of the provisions made in the budget as capital expenditure, 30 percent which is amounting to Rs.119,797,619 was remaining. Thus it was observed that the budget had not been made use of as an effective instrument of management control.

### **5.4 Unresolved Audit Paragraphs**

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The position of implementing the directive given by the Committee on Public Enterprises held on 05 June 2014 is as follows.

- (a) Even though the cabinet approval was granted for the construction of administrative building in year 2007, construction works of that building had not been commenced up to May 2015. However, officers responsible for spending Rs. 1,494,543 as initial expenses were not reported to the committee.
- (b) A sum of Rs.60,000 had been paid from the University's money for the damages caused to the private vehicle of the Dean of the Faculty of Agriculture inside the university premises, and action had not been taken to recover that money or to report about the responsible officers to the Committee.

### **06. 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. Special attention is needed in respect of the following areas of systems and controls.

- (a) Asset Management
- (b) Personnel Management
- (c) Corporate and Action Plans
- (d) Stock Management
- (e) Expenditure Management