

South Eastern University of Sri Lanka - 2014

The audit of financial statements of the South 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.

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 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 given a true and fair view of the financial position of the South 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 are observed.

- (a) The then Ministry of Finance and Planning had donated two vehicles valued at Rs.15,700,000 to the University during the year under review along with the transfer of ownership. However, value of these vehicles had not been brought to the accounts.
- (b) The Centre for External Degrees and Professional Learning Unit (CEDPL) and Postgraduate Units (PU) of the University had earned a net income of Rs.2,005,793 during the year under review by conducting external degree courses and master degrees. However, transactions of those Units had not been incorporated with the financial statements of the University.
- (c) The University had sold unserviceable items by auction during the year under review. Nevertheless, a sum of Rs.125,350 receivable from the persons who offered the items had not been shown in the financial statements.
- (d) Stock balances of consumable items and chemicals of the Department of Biological Science as at end of the year under review valued at Rs.816,670 had not been brought to the financial statements.
- (e) The University had to be paid a sum of Rs.23,567,604 to the Contractor as at end of the year under review for the bills submitted in respect of constructions works completed and handed over to the University. However, this amount had not been shown in financial statements as liabilities.

2.2.2 Accounts Receivable and Payable

Staff loan balances aggregating Rs. 843,123 relating to 06 academic staff who had vacated their posts had remained outstanding for the period ranging from 03 to 15 years. However, no action had been taken to recover these outstanding balances even up to the date of audit on 30 April 2015.

2.3 Non - compliance with Laws, Rules and Regulations

Instances of non- compliance with Laws, Rules and Regulations observed in audit are analyzed and given below.

Reference to Laws, Rules and Regulations etc.	Non - compliance
<p>(a) Establishments Code for the University Grants Commission and Higher Educational Institutions</p> <p>(i) Section 23 of Chapter-X</p> <p>(ii)Section 20.6 of Chapter-X</p>	<p>The University had not maintained leave registers relating to the leave availed by the academic staff.</p> <p>No pay leaves obtained by the academic and non-academic staff had not been reported monthly to the Auditor General in Form No. 96.</p>
<p>(b) Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka</p> <p>(i) No. 102 – 104</p>	<p>(i) Five vehicles belonging to the University had met with accidents and were repaired by spending Rs.2,699,793 during the year under review. However, no action had been taken to conduct inquiries to ascertain the extent and cause of losses and to fix responsibility.</p> <p>(ii) The Boards of Survey conducted in the year 2013 revealed a shortage of 2,477 items of fixed assets to the total cost of Rs.37,042,983. However, the cost of those items had been written off from the books of accounts without being taken proper action to conduct inquiries to determine the causes of losses and to fix the responsibility.</p>

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the University during the year under review had resulted in a net deficit of Rs.756,883,336 before taking into account the government grant of Rs.600,833,150 received for recurrent expenditure as compared with the corresponding net deficit of Rs. 577,710,687 for the preceding year, thus showing a further deterioration of Rs. 179,172,649 in the financial results. The increase of expenditure by Rs.181,733,128 as against the increases of other income by Rs. 2,560,479 had been mainly attributed for this deterioration.

4. Operating Review.

4.1 Performance.

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

(a) Conduct of Degree Courses

The number of students enrolled for each faculty and the number of students left after obtaining degrees during the year under review and last two years are shown below.

Faculties	Number of Students Registered			Number of Students Obtained Degrees		
	2014	2013	2012	2014	2013	2012
Applied Sciences	197	243	273	63	33	43
Arts and Culture	241	418	128	149	134	179
Management and Commerce	329	376	354	158	167	106
Islamic and Arabic Language	340	231	261	145	107	88
Engineering	101	102	-	-	-	-
Total	<u>1,208</u>	<u>1,370</u>	<u>1,016</u>	<u>515</u>	<u>441</u>	<u>416</u>

The following observation is made in this connection.

Enrolment of students to the Faculty of Islamic and Arabic Language during the year under review had increased by 47 per cent whereas, enrolment of students to the Faculty of Applied Sciences, Faculty of Management and Commerce and Faculty of Arts and Culture during the year under review had decreased by 19.0 per cent, 12.5 per cent and 42 per cent respectively.

(b) Cost per Student.

The total cost of each faculty of the University and the cost per student for the year under review are shown below.

	Faculty of Applied Sciences	Faculty of Arts and Culture	Faculty of Islamic and Arabic Language	Faculty of Management and Commerce	Faculty of Engineering	Total
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Total Cost (Rs.000)	88,474	74,407	36,624	68,956	31,683	300,144
Total Number of Students	459	806	744	1,024	194	3,227
Cost per Student (Rs.'000)	193	92	49	67	163	93

The highest cost per student amounting to Rs. 193,000 was reported at the Faculty of Applied Sciences whilst the lowest cost per student amounting to Rs. 49,000 was reported at the Faculty of Islamic and Arabic Language.

4.2 Management Inefficiencies

The following inefficiencies were observed during the course of audit test checks.

- (a) The University had not taken proper action even up to end of the year under review to recover a sum of Rs.8,942,758 from a lecturer who had breached the agreement even though the period of validity of the bond had expired on 10 January 2010. This matter had also been pointed out in my audit report issued for the year 2013.
- (b) A sum of Rs.1,581,737 had remained outstanding from a Senior Lecturer who had vacated his post since 22 January 2010. However, the University had not taken meaningful action to recover this outstanding balance from his surety or taking legal action against him. This matter had also been pointed out in my previous year audit report.
- (c) A sum of Rs. 1,686,896 had to be recovered as at end of the year 2014 from a lecturer as the bond value for breaching his agreement during the year 2004. However, the University had taken action to recover this amount only in the year 2013 after a delay of 09 years. Therefore, the particular lecturer had filed a case in Supreme Court against the recovery of bond value and the Court had given a judgement to return whatever amount recovered from the lecturer as the University had delayed for more than six years after his return to Sri Lanka to take action for recoveries. In this regard, the University had not taken action against the officer who is responsible for delaying

to issue a letter to the respective Lecturer. Due to the negligence of the officer responsible for recoveries, the University had sustained a loss of Rs. 1,731,146.

- (d) The University had purchased Hot Cupboard and Chest Freezer valued at Rs.474,400 during the year 2013 for the utilization of welfare canteen and these items had been purchased considering as very urgent need. However, these items had remained idle at the welfare canteen up to the date of audit on 30 April 2015 without being utilized for the intended purpose.
- (e) According to the University Grants Commission Circular No.503 dated 02 January 1992, The Senior Student Councilors and Student Councilors are entitled to obtain a monthly honorarium of Rs.500 and Rs.300 respectively. However, the University had paid 15 per cent and 10 per cent of the basic salary as honorarium to the Senior Student Councilors and Student Councilors. As a result, a sum of Rs.430,907 had been overpaid during the year under review as honorarium for two Senior Student Councilors and nine Student Councilors.

(f) Purchase of Mattresses for Students Hostel

The University had purchased 800 mattresses at a total cost of Rs.3,140,000 during the year under review. The following observations are made in this regard.

- (i) According to the information made available for audit, the University had used Yellow Pages to invite quotation for purchase of mattresses. However, at the request of the Vice Chancellor the University had selected a supplier whose name was not appeared in the Yellow Pages.
- (ii) The University had rejected four bidders who quoted lower prices without adducing any valid reason. At the meantime, the University had awarded the contract to a supplier who had quoted higher prices. If the University had awarded contract to the bidders who quoted the lowest bids, the University could have been saved a sum of Rs.1,064,864 from this purchase.
- (iii) The supplier who had selected for the purchase of mattresses was a manufacturer and distributor of sponge sheet but not mattress.
- (iv) The sizes of mattresses purchased from the selected supplier were less than the size of the beds. Therefore, the University had to incur an additional cost of Rs.180,000 to add the length of the mattress for the requested size.
- (v) The University had spent considerable amount of money to purchase of these mattresses without being considered the quality and durability of the mattresses. It was further observed that these mattresses could have affected the health condition of the students in future as the quality of material used by the supplier was not acceptable to use as mattresses.

(g) Payment of Honorarium for Preparing Master Inventory and Register of Fixed Assets.

The University had paid an amount of Rs.1,356,000 as honorarium to the non-academic staff and 03 Council Members of the University for preparing above registers. The following observations are made in this regard.

- (i) Even though preparation of Inventory Register and Fixed Assets Register is part and parcel of the duties of the officers attached to the General Administration and Finance Division of the University, a sum of Rs. 756,000 had been paid to 10 officers attached to the Administration and Finance Divisions as honorarium for preparing those registers during the office hours.
- (ii) The Vice Chancellor and Registrar of the University had obtained a total sum of Rs.300,000 as honorarium without giving any valid reason for their involvement in the preparation of those registers.

(h) Activities of Centre for External Degree and Professional Learning. (CEDPL)

The following observations are made.

- (i) According to the University Grants Commission Circular No.932 dated 15 October 2010, the members of the Management Committee of the CEDPL should consist of 12 members including a nominee from the University Grants Commission. However, the members of the Management Committee of the CEDPL had consisted without a nominee from the University Grants Commission.
- (ii) Sums aggregating Rs.654,000 had been paid on monthly basis during the year under review as honorarium for 07 members of the Management Committee of the CEDPL in addition to sitting allowances totalling Rs.50,000 paid to them at the rate of Rs.2,000 per sitting for each member without the concurrence of the University Grants Commission.
- (iii) The University had purchased 24 computers valued at Rs.2,817,200 to the Computer Laboratory of the CEDPL in 2013. However, out of the above 24 computers, 14 computers had been distributed to other division of the University and the balance 10 computers had remained idle up to the date of audit on 30 April 2015 at the stores without issuing any computer to the Computer Laboratory.

(i) Payment of Lease for a Building

The University had taken a building located at Mt. Laviniya on a monthly lease of Rs.120,000 for a period of 18 months from 06 June 2014 in order to provide accommodation facilities to the staff of the University. The following observations are made in this regard.

- (i) According to the lease agreement entered into with the lessor a monthly lease of Rs.120,000 had been fixed without obtaining valuation report from the Chief Valuer of the Department of Valuation in terms of Financial Regulation 835.
- (ii) The lease agreement was signed on 06 June 2014. However, the entire lease amount of Rs.2,160,000 had been paid as advance to the lessor on the date of signing the agreement.
- (iii) Even though the lease agreement had been signed on 06 June 2014, this lease agreement had not been registered in the Registrar of Land Registry under Section 17 of Chapter 135 of the Ordinance of Documents Registration.

4.3 Transactions of Contentious Natures

The following observations are made

- (a) The University had published the greetings in the newspapers on 19 November 2014 for celebrating the birthday of the then President, Mahinda Rajapaksha. In this regard, a sum of Rs.221,200 had been paid during the year under review from the fund of the University.
- (b) The University had purchased a red carpet for Rs.1,099,240 on 21 April 2014, in order to use for the ceremony organized by the University for welcoming the then President. However, it had not been used for the intended purpose and had remained idle up to the date of audit on 30 April 2015.
- (c) The University had spent considerable amount of fund amounting to Rs.1,016,935 for providing refreshment at the ceremony organized by the University for welcoming the then President and Ministers. However, this expenditure could not be satisfactorily vouched in audit due to unavailability of required information such as number of persons participated for the *ceremony*, budgeted estimate, etc.

4.4 Contract Administration

4.4.1 Purchase of Laboratory Equipment

The University had invited quotations for purchase of a Portable Leaf Area Meter from six suppliers to use as laboratory equipment in the Faculty of Applied Sciences and the lower quotation was Rs.1,064,000. However, the Technical Evaluation Committee had recommended highest quoted price of Rs.2,183,500 without giving any valid reasons for rejection of other lower prices quotations. As a result, the University had lost a sum of Rs.1,119,500 from the purchase of this equipment.

4.4.2 Improvement of Internal Road

The University had awarded a contract valued at Rs.43,675,676 for improvement of internal road from the main road to the Security Point No. 07 of the University. The following matters were observed in this connection.

- (a) The above mentioned road had been constructed by the Road Development Department of the Eastern Province during the year 2011 by spending Rs.10,944,641. However, the University had re-awarded the same contract to M/s Central Engineering Consultancy Bureau (CECB) in 2014 at a contract price of Rs.43,675,676 without arising any need to do so.
- (b) The University had awarded another road contract during the same period to the CECB which to be reconstructed from the main road to security point of the University. However, the CECB had applied two different rates for the above mentioned two roads for the same item of works relating to supplying and laying the ABC with transport of Base Course. Accordingly, a sum of Rs. 380,256 had been overpaid to the contractor for reconstruction of internal road from the main road to security point.
- (c) The reconstruction of internal road up to the security point was completed in 2014 and the entire contract value of Rs.43,675,676 had been paid to the contractor. However, the contractor had claimed an additional amount of Rs.7,418,160 for the excess works completed by them. It was further observed that the University had made payment for such excess works without getting approval from the Procurement Committee.
- (d) According to the contract agreement, the construction works should have been completed before 30 June 2014. However, it had been completed only on 31 July 2014. In this regard, a sum of Rs.592,585 had not been recovered as liquidated damages from the contractor in terms of contract agreement.

4.4.3 Construction of Student Hostel and Staff Quarters at the Faculty of Applied Sciences.

The University had awarded a contract for the construction of Student Hostel and Staff Quarters on 01 November 2011 at a contract value of Rs.92,508,979. The following observations are made in this regard.

- (a) The University had given priority for construction of this hostel building as the students have faced severe difficulties in finding accommodation facilities in this area. Therefore, the Cabinet of Ministers had also granted approval to complete the construction works of these buildings within two years period. However, the University had granted extension in five times up to 31 August 2014 without valid reasons and failure to take proper action against the contractor.
- (b) Even though the construction works should have been completed on or before 17 December 2012, only 60 per cent of the works had been completed even after granting fifth extension up to 31 August 2014. further, the University had paid a sum

of Rs.7,091,312 to the contractor as price escalation for price increases occurred after due date of completion of works.

- (c) According to the contract agreement entered into between the University and the contractor, no condition had been included in the agreement relating to payment of penalty for delaying the payment of bills to the contractor. However, the University had paid a sum of Rs.1,206,460 as penalty for delayed payments to the contractor.
- (d) According to the contract agreement, the liquidated damages should be recovered at the rate of 0.05 per cent of the initial contract price per day, subjected to maximum of 10 per cent of initial contract price. However, the University had not taken action to recover the liquidated damage amounting to Rs.9,158,389 from the contractor. If the amount of liquidated damage is calculated from the due date of completion without considering extension of time granted by the University for invalid reasons given by the contractor, the amount of liquidated damage would be Rs.39,964,320.
- (e) The contractor was unable to complete the construction works even after three years from the due date of completion of works as the selection of contractor had been carried out without properly evaluating the capacity and past experience of the contractor. Therefore, the University had to be paid a sum of Rs.4,929,250 as rentals for the buildings rented out for providing accommodation to the University students during the years 2013 and 2014.

4.5 Human Resources Management

The following observations are made.

- (a) The post of Bursar had remained vacant from 15 December 2013. However, the University had not taken fruitful action to appoint a qualified officer to this post even by 30 April 2015.
- (b) The University had not taken action to fill eight vacancies existed for the posts of Professors and Associate Professors at several Faculties for last few years. This situation had badly affected to the educational activities of the students.
- (c) According to the Circular No. 721 dated 21 November 1997 issued by the University Grants Commission, the recruitment for the post of Senior Lecturers should be made through open advertisements. In contrary to that requirement, nine officers performed duties as temporary assistant lecturers had been promoted as senior lecturers.

5. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Vice Chancellor of University from time to time. Special attention is needed in respect of the following areas of systems and controls.

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