

University of Colombo - 2014

The audit of financial statements of the University of Colombo 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 cash flow statement 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 Section 13(1) of the Finance Act, No. 38 of 1971 and 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 Responsibility for the 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 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 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 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 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 University of Colombo 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.

Sri Lanka Public Sector Accounting Standards

The bathrooms and toilets of the hostel being constructed at a cost of Rs. 8,105,737 and still remained unusable as at the end of the year under review, had been capitalized contrary to Sri Lanka Public Sector Accounting Standard 07. Provisions for depreciation amounting to Rs. 33,731 had been made for the month of December in that connection.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Although the Post-graduate course in journalism of the Sri Pali Campus for 2014/2015 had been completed, action had not been taken to recover the course fees amounting to Rs. 540,000 thereon.
- (b) Balances of Rs. 963,348 relating to distress, festival, computers, and employee loans that remained recoverable by the end of the year under review from 27 officers who had vacated their posts, remained outstanding over a period of 05 years, and action had not been taken to recover them.

2.4 Transactions not Supported by Adequate Authority

Despite being agreed by the University to pay a sum of Rs. 2,995,373 to the Central Engineering Consultancy Bureau in accordance with the consultancy agreement relating to the supervision of construction of the new building at the faculty of degree studies, the Deputy Registrar of the faculty who lacked technical expertise, had been appointed to supervise the new building of the faculty of degree studies. An allowance of Rs. 522,000 equivalent to 78 per cent of the monthly salary had been paid in that connection, contrary to the provisions of the Public Enterprises Circular, No. 95 dated 14 June 1994, and the recommendations of the Finance Committee.

2.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances with laws, rules, regulations, and management decisions were observed.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a) Financial Regulation 371 of Democratic Socialist Republic of Sri Lanka	(i) The maximum limit of advances that can be granted at a time amounts to Rs. 20,000 as per regulations. However, according to the sample audit check, the University had granted advances exceeding Rs.1 million in 2 instances, and a sum of Rs.4,395,760 obtained by 41 lecturers had been settled after delays ranging from 30 to 316 days. (ii) Advances totalling Rs. 466,485 given to publishers from 2011 to 2013 for the Purchase of Library books, had not been settled. (iii) As advances had been granted without preparing estimates properly, 44 - 71 per cent of the advances totalling Rs. 769,005 granted to 32 officers of the University and Sripali Campus, had been saved.
(b) Establishments Code of the Universities and the institutes of higher education	
(i) Section 3.1 of Chapter XX , and Section 1.6.1 of Chapter X	It was revealed in the sample audit check that registers for arrival, departure, and leave of the academic staff of 8 Departments at the Faculty of Arts, had not been maintained.
(ii) Chapter XIX	In accordance with the agreements signed by the University, 10 per cent of the basic salary of the officers who occupied the official residences should be charged as lease rentals. Even though a sum of Rs. 180,289 should have been recovered from the officers who occupied the official residences from 01 November 2014 to 28 February 2015, only a sum of Rs. 81,700 had been recovered whilst a sum of Rs. 98,589 remained recoverable.
(c) Section 6 (1) (a) of the Public Contract Act, No.03 of 1987	Even though every bidder should register with the Registrar of Public Contracts in case of cost of contract agreements exceeding Rs.5 million, 05 contracts with an agreement value of Rs. 47,478,427 had not been so registered.

- (d) Section 15(v) of the Universities Act, No. 16 of 1978, and University Grants Commission Circular, No. 932 of 15 October 2010 Approval had not been obtained in connection with 19 external courses of the University of Colombo, and an external course of SriPali Campus.
- (e) University Grants Commission Circular, No. 11/2013 dated 10 October 2013 Leave should be granted to the academic staff for post graduate studies allowing them to study at a different university other than the one for which they serve. However, 05 lecturers of the Faculty of Education had read for a post graduate degree at the same faculty, whereas, the studies of 03 of them had been supervised by the Head of the same department.
- (f) Circular No.2004/ ෧෧/1 dated 26 January 2004 of the National Library and Documentation Services Board A board of survey had not been conducted on the library books of the SriPali Campus in the current year or the preceding year
- (g) Public Administration Circulars
- (i) Circular, No. 09/2007 (III) and 09/2007(I) (V) dated 27 October 2007. The maximum period of reappointment for a pensioner should be 12 months, and a suitable successor should be trained during the period of reappointment. Nevertheless, a re - appointed retired Deputy Registrar had been continuously employed over a period of more than 7 years, and action had not been taken to identify and recruit a successor.
- (ii) Circular, No. 09/2007 dated 24 August 2007 Without obtaining recommendations from the Treasury in connection with the other perks for the permanent post, transport facilities from Home to office had been provided for 2 retired officers who had been reappointed on assignment basis in the year under review.

It was observed in audit by examining the conditions on appointments that the management had neglected the service requirements, alternatives for covering the service requirements, and conditions to be laid down relating to the security of the Institute when the retired academic and non-academic staff were reappointed in the university service. As such, it is observed that there is a possibility for the University to face various financial issues.

- (iii) Circular, No. 09/2007(1) dated 27 August 2007 Appointments should be made on the approval of the Secretary to the Ministry only when there is a difficulty to appoint a successor to a substantive post, and it is not possible to cover the duties on acting basis. Contrary to that, 07 officers had been appointed on the approval of the Council for a duration ranging from 06 months to 07 years on assignment basis.
- (h) Treasury Operations Circular, No. 05/2010 dated 29 October 2010. A methodology to bank the salaries in paying monthly salaries should be followed in view of lowering the risks. However, at the physical verification carried out on 26 February 2015, the Shroff had a balance of Rs. 5,139,744 in his possession as cash in hand. The monthly salary of 381 academic, and non-academic staff totalling Rs.17,250,260 equivalent to 21 per cent of the total salaries, and other payments in the range of Rs. 100,000 - Rs. 310,720, had been paid in cash.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operation of the University for the year ended 31 December 2014 had resulted in a surplus of Rs.372, 221,037 as compared with the corresponding surplus of Rs.214, 339,468 of the preceding year. Increase of Government grants by a sum of Rs.253, 026,994 had mainly attributed to the increase of Rs.157, 881,569 in the surplus of the year under review as compared with the preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The dates of release of examination results had not been shown in the academic time table prepared by the University of Colombo and the Sripali Campus.
- (b) Results of the examinations conducted for the internal students should be released within 03 months. Nevertheless, it was observed in the sample check carried out on the release of results relating to the degree of business administration conducted during the academic year 2013/2014 for the internal students of the Faculty of Management that results of the first, third, and the fifth semesters had been released after a delay of 6-8 months.

- (c) An attendance register had not been properly maintained as per a specific format enabling to ensure the matters such as, granting marks in the range of 10 per cent to 25 per cent based on the attendance of students, and refusing approval for the students to sit the examinations whose attendance is not satisfactory.
- (d) In spite of being stated in the student handbook issued for the course of Master of Philosophy (Part time) – 2012 that the students whose attendance is less than 70 per cent would not be allowed to sit for the final examination of the Research Methodology, 05 students whose names had been stated in the register of students who completed the course successfully, had not been recorded in the attendance registers to ensure whether they had participated in the course.

4.2 Idle and Under-utilized Assets

The following observations are made.

- (a) Forty chairs , and 07 tables valued at Rs. 348,800 purchased for the library in Sripali Campus on 08 July 2013, had been stored in the reading hall without being used even as at the date of audit on 25 March 2015.
- (b) Despite the Sripali Campus had owned 05 vehicles in running condition, 3 vehicles, and a safari jeep had always remained under-utilized since a period of 06 years as there had been only 2 drivers.
- (c) There had been a balance of Rs. 5,529,295 in the current account being maintained by the Sripali Campus at the Bank of Ceylon as at 31 December of the year under review. Although the average bank balance amounted to Rs.4,937,714 from December to January in the year 2014, those monies had remained idle in the current account without being invested in short-term.
- (d) Eleven balances totalling Rs. 4,211,513 shown under specific funds in the financial statements of the year under review, had remained idle for a period of 3 years.

4.3 Management Inefficiencies

The following observations are made.

- (a) A sum of Rs. 34,747,649 recoverable as at 31 December of the year under review from 31 lecturers who had breached agreements, could not be recovered due to reasons such as, failure to find the addresses, and failure to take follow-up actions.
- (b) In spite of a sum of Rs. 5,040,000 had been spent on 07 hostels owned by the University of Colombo , and 03 hostels obtained on lease thereby facilitating 2,629 students at the hostels obtained on lease , only 2,223 students had been facilitated.
- (c) Action had not been taken even by 29 June 2015 to obtain title deeds in order to verify the ownership of lands valued at Rs. 31,485,140,000, shown in the statement of financial position. The competent authority of the University had informed that a private institution had been assigned on 19 June 2015 to prepare plans for those lands.

- (d) Even though study leave had been granted to a female lecturer of the Sripali Campus with effect from 22 September 2007 to 14 December 2008, the University had not been informed of any progress relating to her doctorate. At the Board of Governance meeting of 438, held on 16 November 2010, she was deemed to have vacated the service, and a sum of Rs. 2,931,113 remained recoverable from her. Although the University had sent a letter to the Attorney General in that connection on 04 March 2014, no legal or follow-up actions had been taken.

4.4 Transactions of Contentious Nature

The following observations are made.

- (a) Even though no provisions had been made by the Universities Act, and without approval of the Cabinet of Ministers a shell company limited by guarantee had been established under aid of the International Development Association of the World Bank by utilizing the staff of the university with the objective of commercializing the University. An income amounting to Rs. 2,540,469 had been earned by the company for the financial year ended 31 March 2014, and an expense of Rs. 1,935,908 had been incurred. However, it had not been disclosed in the financial statements.
- (b) Three lecturers who obtained sabbatical leave had worked for the Sir John Kotalawala Defense University and the University of Peradeniya on contract basis. Despite an allowance totalling Rs. 3,068,793 had been paid by the said institutions, salaries and allowances totalling Rs. 7,202,882 had also been paid by the University of Colombo which was their permanent work place. Accordingly, it was observed in audit that salaries and allowances had been paid to 3 same officers twice from the Treasury fund.

4.5 Weaknesses in Contract Administration

The contract for the construction of Sujatha Jayawardene Hostel had been awarded to a private institution on 24 December 2013 at a value of Rs. 22,642,292, and construction was scheduled to be completed by 22 June 2014. By 30 June 2015, a delay of 373 days had been caused whilst 40 per cent of the total contract had been completed. Nevertheless, a sum of Rs. 10,211,186 had been paid, but fines on the delay amounting to Rs. 747,195 had not been charged. A consultant had been appointed to supervise the construction due to its slow progress, and an allowance of Rs. 727,000 had been paid to him in the year under review.

4.6 Identified Losses

The following observations are made.

- (a) A sum of Rs. 54,835 had been paid for surveying and preparation of an engineering plan for the construction of a six-storied examination hall that had been included in the Corporate Plan for 2011-2015, but the construction had been abandoned halfway.
- (b) The University had commenced a project in the year 2005 for the construction of a hostel on Muttaiah Road to facilitate 300 female students, and incurred a sum of Rs.268,052 in

that connection in the years 2005, 2006 and 2010. However, the project had been halted halfway.

5. Accountability and Good Governance

5.1 Action Plan

Although the annual Action Plan should have been prepared in a manner that each officer is assigned to bear the responsibility relating to each task in accordance with Section 5.1.2 of Circular, No. PED/12 dated 02 June 2003, it was observed that Action Plan had not been prepared by assigning the responsibilities to the officers of Sripali Campus.

5.2 Administration of Staff Vacancies

The following observations are made.

- (a) The approved cadre of the academic staff of the University and the Sripali Campus had been 658 and 123 respectively as at 31 December of the year under review, whereas the actual cadre had been 522 and 93 respectively. As such, it was observed that there had been 136 and 31 vacancies respectively, while one post remained in excess at the Sripali Campus.
- (b) The post of work Supervisor at the Land and Buildings Maintenance Division was being covered on assignment basis over a period of 8 months, whereas 03 posts of Deputy/Assistant Registrar that remained vacant at the Administrative Division of the College House, had been covered for a period ranging from 6 months to 8 years, and action had not been taken to recruit new appointments.
- (c) According to the sample examined, a post of Deputy Registrar, and a post of Senior Registrar had remained vacant whilst 02 posts of Director at the Physical Education (Sports) Division were being covered on acting basis over a period exceeding 02 years.

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 following areas of control.

- (a) Financial Control
- (b) Contract Administration
- (c) Assets Management
- (d) Control of Debtors and Creditors
- (e) Personnel Management