

University of Moratuwa - 2014

The audit of financial statements of the University of Moratuwa 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 the 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

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 audit evidence 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 University of Moratuwa 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 observations are made.

- (a) The property, plant and equipment costing Rs.1,909,737,772 with zero net value as at 31 December of the year under review which are being used at present had not reflected the fair value, thus action had not been taken to revalue and account of those assets.
- (b) In the identification of Government grants, it should not be done until a fair confirmation is obtained with regard to the receipt of grants. Nevertheless, Government grants amounting to Rs.63,255,708 receivable as shown in the statement of financial position of the year under review had been shown as Government grants receivable in the accounts despite being not confirmed the receipt of grants in due course.
- (c) Accrued expenditure shown in the statement of financial position as at 31 December of the year under review amounted to Rs.95,445,504 and it included an overprovision of Rs.18,574,998.

2.2.2 Lack of Evidence for Audit

Even though the unidentified balance receivable which brought forward since the year 2012 amounting to Rs.1,793,700 had been classified as Mahapola and bursaries, the schedules pertaining to that balance had not been made available to audit.

2.3 Accounts Receivable

The following observations are made.

(a) Breach of Agreements and Bonds

A sum of Rs.14,279,404 recoverable from 08 lecturers who had breached agreements and bonds had not been recovered from the University Provident Fund or guarantors while legal action had not been taken against them as yet. The value of agreements and bonds amounting to Rs.5,108,114 recoverable from two officers mentioned above had been older than 10 years.

- (b) Even though an indoor stadium had been constructed by spending a sum of Rs.4,435,700 from the University Fund under the sponsorship of the Department of Sports Development according to an understanding reached, the money spent had not been reimbursed even by the end of the year under review, despite the elapse of 07 years after the completion of the construction of indoor stadium.
- (c) Distress loans amounting to Rs.523,588 recoverable from 09 officers who had vacated the posts had not yet been recovered from the University Provident Fund. Out of that, a sum of Rs.245,490 recoverable from 06 officers had been older than 05 years.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances are observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Universities Act, No.16 of 1978 Section 99	All moneys received by the Institutions of Higher Education from any source whatsoever should be credited to the University Fund. Nevertheless, a sum of Rs.4,712,538 collected from the students for the Convocation and a sum of Rs.3,461,153 collected as income from Aptitude Tests had been shown under the Accounts Payable without being credited to the University Fund.
(b) Establishments Code for the University Grants Commission and the Higher Educational Institutions Chapter XX Section 3.1	Salaries and allowances amounting to Rs.616,318,952 had been paid for the year under review without confirming the arrival and departure of the academic staff.

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) In terms of Section 99 of the Universities Act, No. 16 of 1978 and the letter No.UGC/F/PA/2002 dated 24 February 2003 of the Chairman of the University Grants Commission, all income earned by the Institutions of Higher Education from sources whatsoever should be credited to the Fund of such institution. Nevertheless, a sum of Rs.6,066,432 out of the income from External Courses and Aptitude Tests earned by the University during the year under review had been distributed among the employees without the approval of the Treasury. In making this payment, the Public Finance Circular No.380 on undertaking consultancy services had been misinterpreted.
- (b) A sum of Rs.2,861,689 out of the income of the External Course on Bachelor of Information Technology (BIT) had been paid as management fees to a private company

established in the University premises for providing consultancy services contrary to the objectives of the Universities Act, No.16 of 1978 and without the approval of the Cabinet of Ministers.

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.241,609,866 as compared with the corresponding deficit of Rs.190,252,999 for the preceding year, thus indicating a deterioration of Rs.51,356,867 in the financial result of the year under review as compared with the preceding year. Even though the Government grants received for the recurrent expenditure of the year under review had increased by a sum of Rs.234,097,000, increase of the emoluments of the staff by a sum of Rs.171,804,898 and other operating expenditure by a sum of Rs.60,178,053 had mainly attributed to this deterioration.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

(a) Delay in the Release of Examination Results

- (i) According to the Circular No.636 dated 14 July 1995 of the University Grants Commission, the results of the Internal Examinations of the University should be released within 03 months after the conduct of examinations. Nevertheless, 30 instances of delays more than 03 months were observed in the release of results of examinations held in the year under review.
 - (ii) Eight instances of delays in the release of the results of examinations of the first semester of certain courses beyond the dates of the relevant examinations of the second semester of those courses were observed.
- (b) According to the terms of the lease agreement of the land acquired by the University from the Urban Development Authority on lease, development works thereof should have been completed within 02 years from the date of the agreement, that is, 14 October 2009. Nevertheless, action had not been taken to complete those works even by 26 May 2015.
- (c) Even though the rates in respect of 05 properties legally owned by the University should be paid in the name of the University, the rates had been paid in the name of previous owner for several years.

4.2 Underutilization of Funds

The following observations are made.

- (a) No scholarship whatsoever had been awarded during the 05 preceding years from 38 Funds amounting to Rs. 7,115,043 established from Grants received by the University for the award of scholarship and 56 scholarship Funds amounting to Rs. 10,898,398 were inactive during the year under review.
- (b) Five Funds amounting to Rs.4,438,563 received as donations to the University, 10 Course Development Funds amounting to Rs.4,140,653 and 20 Departmental Funds amounting to Rs. 5,997,230 had been inactive for a period ranging from 01 to 05 years.

4.3 Lands not Properly Vested

The land about 55 acres in extent of which the book value amounted to Rs.260,843,500, where the University is situated had not been vested in the University even up to 06 June 2015, the date of audit.

4.4 Personnel Administration

Two hundred and thirty two vacancies in the academic staff and 85 vacancies in the other staff of the University existed as at 31 December 2014.

5. Accountability and Good Governance

5.1 Action Plan

Action had not been taken to conduct 03 Postgraduate Courses expected for commencement according to the Action Plan of the year under review.

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 control.

- (a) Loans and Advances Control
- (b) Postgraduate Course Income
- (c) Accounting
- (d) Breach of Agreements
- (e) Personnel Administration
- (f) Budgetary Control
- (g) Utilization of Motor Vehicles