

University of Ruhuna - 2014

The audit of Financial Statements of University of Ruhuna for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity 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 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 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 judgment, 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 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 give a true and fair view of the financial position of the University of Ruhuna 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

The following observations are made.

- (a) According to the Sri Lanka Public Sector Accounting Standard 7 when items of property, plant and equipment are revalued, the entire class of property, plant and equipment, of such assets should be revalued. Nevertheless, only a portion of the lands belongs to the University had been revalued and shown in the financial statements.
- (b) Even though Bank overdraft should be shown under other current liabilities in terms of the Sri Lanka Public Sector Accounting Standard 1, the Bank overdraft of Rs.48,021,864 arising after setting off the overdraft of the Recurrent and Capital Bank Current Accounts totalling Rs.108,713,032 against the cash and bank balances had been shown under current assets.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though purchases of capital nature amounting to Rs.12,110,019 had been made from the Fund established according to the Memorandum of Understanding entered into between the General Sir John Kothalawala Defence University and the University of Ruhuna, that amount had not been capitalized by transferring to the asset accounts.
- (b) The machinery and equipment and office equipment valued at Rs.1,290,669 purchased on credit basis during the year under review had not been brought to account.

2.2.3 Unreconciled Control Accounts

A difference of Rs.1,499,057 was observed in the reconciliation of balances of 20 items of account in the Faculty of Agriculture and the Faculty of Medicine shown in the financial statements and the relevant balances shown in the subsidiary registers.

2.2.4 Lack of Evidence for Audit

Even though the value of the Livestock of the Farm as at 31 December 2014 had been assessed at Rs.1,796,510, the value of the Livestock could not be correctly verified as the Register of Animals of the Farm (cows, buffalos, poultry, pigs and goats) had not been maintained properly.

2.3 Accounts Receivable and Payable

A sum of Rs.10,324,920 remained receivable over the periods ranging from 01 year to 13 years as at 31 December 2014 from 12 members of the academic staff for the breach of agreements entered into with the University. Action had not been taken for the speedy recovery of that amount.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations, etc.

Non-compliance

- (a) Establishments Code of the Democratic Socialist Republic of Sri Lanka
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Chapter XIX

- Section 4.3.3

A waiting list had not been maintained for the officers applying for staff quarters.

- Section 6.1

The period of lease of all quarters except those reserved for a particular post had been shown as 5 years. Nevertheless, it was revealed that the same officer had been occupying the quarters for a long period in contrary to that limit.

- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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- (i) Financial Regulation 317

Both keys of the safe in Custody of the Cashier of the Faculty of Medicine had been kept by the Cashier without handing over one key to a staff officer. A sum of Rs.519,840 and 40 packets of salaries totalling Rs.1,220,000 remained in Custody of the Cashier on 29 September 2014, the date of audit.

- (ii) Financial Regulation 371

Even though advances obtained should be settled immediately after the completion of

the purpose, action had not been taken even by 10 June 2015, either for the settlement or for the recovery from the officers concerned, the advances amounting to Rs.674,298 paid to 18 officers and 03 institutions as at 31 December 2014.

(iii) Financial Regulation 394

Even though the value of cancelled cheques should be considered as an amount received and credited to the specific income account, it had not been so done in connection with 19 cancelled cheques valued at Rs.210,670.

(iv) Financial Regulation 1646

Eventhough the Daily Running Charts of each month should be furnished to the Auditor General before the fifteenth day of the following month, the Daily Running Charts and the Monthly Performance Summaries of 06 motor vehicles of the Faculty of Agriculture from January to September 2014 had not been furnished to audit even up to the end of the year under review.

(c) Establishments Code for the University Grants Commission and Higher Education Institutions

Chapter XX

Sections 3.1 and 3.2

Every Higher Education Institution should maintain an Attendance Register and every person employed in such institution should mark therein the times of arrival and departure. The officers of the academic staff of the University had not furnished their Attendance Register and the Leave Register and as such the salaries and allowances amounting to Rs.886,860,747 paid during the year under review could not be satisfactorily vouched in audit.

(d) Treasury Circular No.842 of 19 December 1978 and the Treasury Circular No.1A1/2002/02 of 28 November 2002

Register of Fixed Assets had not been maintained for the fixed assets of the University. A Separate Register of Fixed Assets had not been maintained for the Computer Software and Hardware valued at Rs.47,071,914.

- (e) University Grants Commission Circular No.737 of 18 August 1998 All money recovered from the persons who had breached the agreement entered into with the University should be invested in interest bearing fixed deposits or Treasury Bills. Even though the University had recovered a sum of Rs.41,729,919 up to 31 December 2014 from persons who had breached the agreements, that money had not been invested.

2.5 Transactions not Supported by Adequate Authority

A sum of Rs.4,045,505 received for the Human Resource Development of the Faculty of Management and Finance under the Norad's Programme for Master Studies and start up Fund and Norvigien Program for Development, Research and Evaluation had been transferred to the Vice Chancellor's Fund without the approval of the Donor Party and without being utilized for the purpose of the project.

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.42,348,000 as against the deficit of Rs.164,624,000 for the preceding year. The financial result for the year under review as compared with the preceding year, had improved by a sum of Rs.206,972,000.

3.2 Legal Cases Initiated against the University / by the University

The University had filed two cases as at 31 December of the year under review in the Supreme Court and the District Court, while there were 19 cases filed against the University in the Courts and the Labour Tribunal. The amount recoverable in connection with the case filed by the University in the District court amounted to Rs.5,282,110 and the compensation claimed under 03 cases out of the 19 cases filed against the University amounted to Rs.31,505,977.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Two students of the Faculty of Medicine of the University of Ruhuna had not obtained 31 installments of bursaries amounting to Rs.74,000 in respect of the years 2012, 2013 and 2014 while 23 students of the Faculty of Humanities and Social

Sciences who had registered in the year 2012 had not obtained 253 installments of bursaries totalling Rs.562,800 and such amount continued to be credited to the Unpaid Bursaries Account and the University had not carried out any investigation in that respect.

- (b) Assets valued approximately at Rs.26,463,266 had been purchased during the year 2006 to 2010 under the Specific Agreement on Research Co-operation between the Swedish International Development Co-operation Agency Project implemented by the Faculty of Fisheries, Marine Sciences and Technology. Even though nearly 04 years had lapsed after completion of the project, action had not been taken to handover the said assets to the University.
- (c) The Department of Fisheries Biology had been converted to the Faculty of Fisheries, Marine Sciences and Technology with effect from 08 November 2006. As such the inventory items of the former Marine Biology Department should have been distributed among the offices and Other Departments of the newly established Faculty and new inventory Register should have been prepared. But it had not been so done. Even the inventory Register maintained up to the date of audit had not been prepared properly on Form General 44.
- (d) Fourteen Categories of goods in the form of stationery and papers valued at Rs.103,588 received to the stores of the Faculty of Agriculture during 1997 to 2011 remained in the stores over a long period without being issued. No action had been taken on those items.
- (e) Even though in purchasing the 250 writing tables for the Examination Hall of the Faculty of Humanities and Social Sciences these had been supplied delaying 107 days after the specified date, the total amount of Rs.1,137,500 had been paid without recovering the liquidated damages amounting to Rs.60,856 in terms of the agreement.
- (f) The test check carried out regarding the issuance of sport items to the students by the Physical Education Division, it had revealed that 38 instances in which the sport items issued over a period ranging from 01 year to 10 years had not been returned. But action had not been taken for the recovery of such sport items or the value thereon.
- (g) According to the decision of the Governing body taken at the meeting held on 10 June 2013, not to recover rent from the occupants of the quarters of the University, rent amounting to Rs.1,422,025 had been under recovered from 87 members of the staff.

4.2 Operational Inefficiencies

The following observations are made.

- (a) An advance amounting to Rs.1,396,917 paid during the years 2006 to 2013 for purchasing library books and periodicals had not been settled even by 31 December of the year under review.
- (b) According to the information obtained from the Division of Students' Affairs of the University, instead of 1,145 students that could have been admitted for 11 Academic Courses only 920 students had been admitted for the Academic Year 2013/2014. As such

225 students who were qualified for admission of the University had been deprived of the opportunity to acquire higher education.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) The University of Nordland of Norway and the University of Ruhuna had jointly implemented the Project for a Research Book on the Development of Small and Medium scale entrepreneurs of Sri Lanka under two foreign aid projects namely Norad's Programme for Master Studies and Startup Fund and the Norwegian Programme for Development, Research and Evaluation Project and 12 member of the Academic Staff of the University of Ruhuna had been paid a sum of Rs.780,000 for the contribution of this country. Nevertheless, no evidence to prove that even a single copy of the relevant book had not been received to the University of Ruhuna even up to 10 June 2015.
- (b) A Hostel for 115 students of the Faculty of Medicine had been obtained on 02 January 2012 for a monthly rental of Rs.115,000 without obtaining a valuation report. Nevertheless, the monthly rental as per the valuation report obtained on 09 September 2014 amounted to Rs.80,000. As such, a sum of Rs.702,000 exceeding the valuation of the Government had been paid with effect from 02 January 2012 to 02 October 2014.
- (c) A sum of the Rs.8,928,192 had been paid to a private institution for the supply and fixing 84 writing tables and benches for the Lecture Hall of the Faculty of Management and Finance. The University had incurred a loss of Rs.432,000 due to the supply and fixing writing tables and benches which did not conform with the specifications provided.
- (d) The balance of the Account of Unpaid Bursaries, as at 31 December 2013 amounted to Rs.4,511,350 and it had been increased by 91 per cent up to Rs.8,602,050 as at 31 December of the year under review. The reasons for such increase had not been disclosed at the audit.
- (e) The land, 2 Roods and 1.9 perches in extent and the building therein donated to the University by the Sambodhi Trust Board had been temporarily handed over to the Urban Development Authority on 23 August 2013 for the use of the activities of ceremony related to the Conference of the Heads of commonwealth countries. Even though requests to get returned this land and building had been made on 27 January 2014 to the District Office of the Urban Development Authority, Galle and on 10 April 2014 to the Ministry of State Defence and Urban Development, the property had not been returned to the University up to date.

4.4 Under-utilization of Funds

Swedish aid amounting to Rs.45,300,469 had been received for the implementation of the project "Specific Agreement on Research Co-operation between the Swedish International Development, Co-operation Agency" from the year 2006 through the Faculty of Fisheries and Marine Sciences and Technology of the University. The said project had been implemented up to December 2010 and only a sum of Rs.30,704,916 out of the provision had been spent according to the information made available to audit. The balance sum of Rs.14,595,553 had been returned without being utilized.

4.5 Idle and Under-utilized Assets

The following observations are made.

- (a) One thousand three hundred and twenty two units of thirty one lighting accessories, which can be used for the Auditorium, since the year 1983 and 40 chemicals received to the Main stores on 14 August 1998 had been retained in the stores without being utilized.
- (b) Even though a gas oven valued at Rs.8,718 had been received to the stores of the Faculty of Engineering on 14 June 2014, it had been retained in the stores even up to 27 November 2014, the date of audit, without issuing to the party who had made the request for the same. Additionally, 83 items of 06 categories of various stationery had been brought forward as a balance in the Inventory Register over a number of years.
- (c) The Electricity generator of 85 K.V.S capacity installed near a students' hostel had not been utilized for any purpose with effect from January 2012 to 31 December of the year under review.
- (d) It was observed during the course of audit that the balances of two Bank Accounts totalling Rs.60,234 remained idle as at 31 December of the year under review. No suitable course of action had been taken thereon.
- (e) A sum of Rs. 1,824,346 granted under the Research Grants for the implementation of 04 projects of the Faculty of Medicine had been remained idle in the account as the said projects had not been implemented during the year under review.
- (f) According to the financial statements for the year under review the balance of Rs.811,535 of Bank of Ceylon was observed as an unchanged balance in the financial statements since the year 2007. Necessary action had not been taken regarding the same even up to the end of the year under review.

4.6 Uneconomic Transactions

The following observations are made.

- (a) Even though a sum of Rs.1,700,260 had been paid to the Bursar of the University of Peradeniya and the Deputy Bursar of the University of Sri Jayawardanepura for the preparation of the Register of Fixed Assets of the University, it had not been completed even by 31 December 2014.
- (b) Even though the Government had granted financial assistance and leave with salary for the officers of the Academic Staff of the University of Ruhuna for the completion of their higher educational qualifications, 20 instances of which evidence in support of non-completion of the relevant Postgraduate Degrees were observed in audit test checks. Out of the 20 instances the payments made by the Government to 12 Professors and Lecturers alone amounted to Rs. 9,890,511. The information on payments made to the other 8 Professors and Doctors could not be gathered from their personal files.

- (c) Opportunities to provide benefits to many people from the expenses have been deprived through providing books, purchased at the cost of Rs.7,512,491 under the project of enhancing the relevancy and quality of the education of undergraduates to various Departments instead of providing them to the Main Library.
- (d) Financial assistance amounting to Rs.1,740,622 had been granted to two Lecturers including a Temporary Lecturer to complete their educational qualifications under the Project of Specific Agreement on Research Co-operation between the Swedish International Development Co-operation Agency implemented by the Faculty of Fisheries, Marine Sciences and Technology with effect from the year 2006 to the year 2010, without any guarantee. It was revealed that both Lecturers are not serving in the University at present and as such it was observed that the University had not received any benefit for the said expenses.
- (e) A sum of Rs.16,841 had been paid to the National Insurance Corporation for obtaining insurance policies for the year under review for Motor Cycles and Tractors totalling which did not in running condition and which belong to the Faculty of Agriculture.
- (f) An advance of Rs.751,463 had been paid 03 years ago for purchasing scientific equipments required to the Department of Food and Technological Sciences of the Faculty of Agriculture from the Institute of Sandberg Schneidewind of Germany. Even though the equipment had not been received to the University up to March of the year under review, such equipment had been purchased at a cost of Rs.329,179 from the Institute of Lab Chemicals of India, without making any inquiry on the earlier order. The equipments so purchased included several items which had not been ordered while several other equipments had not been received. As the main switch of the electric scale was not working, it could not be used. Even though a period of more than one year had lapsed after the receipt of equipments, with many defects, no action had been taken in that respect even up to 19 December 2014, the date of audit.

4.7 Identified Losses

The following observations are made.

- (a) A sum of Rs.16,012 had to be paid as penalty due to failure of obtaining the revenue license for the year 2014 on due dates in respect of 04 Motor Vehicles of the Faculty of Agriculture, Mapalane and the University bus.
- (b) The paying officer should frequently find out whether the balance in bank is adequate to meet all payments made by cheques in terms of Government Financial Regulation 387 overdrafting had been prohibited from any Bank Account of the Government in contrary Bank Overdraft interest amounting to Rs.93,112 had been paid related to two current accounts of the University during the period from January to December 2014.
- (c) At an audit test check of the drugs purchased for the Medical Centre of the Faculty of Agriculture it was revealed that 46 items of drugs had been out dated and the value of 27 of those items amounted to Rs.23,899. Neither the necessary action had been taken to hand over such drugs to other Medical Centres before their expiry dates nor to make suitable arrangement.

4.8 Staff Administration

Academic and Non- academic Staff

The approved cadre of the Lecturers of Academic Staff of the University (inclusive of Probationary Lecturers) as at 31 December of the year under review had been 601 while the actual staff as at 01 June 2015 had been 477. Thereby 124 posts were vacant. There were 152 vacancies in the Non- Academic Staff and No.of posts not approved in the actual staff was 64.

4.9 Motor Vehicle Utilization

The following observations are made.

- (a) Motor Car belonged to the University of Ruhuna was repaired at a cost of Rs.188,722 during 2013 and 2014. But it had not been run after April 2014. The Motor Car had remained idle even up to 21 January 2015 without taking action either for repairing or disposal.
- (b) The engine of the bus donated to the University in 2007 had been repaired in two instances with effect from 2012 at a cost of Rs.748,360. Before lapsing the guarantee period or completion of total number of kilometres to be run the bus had been handed over to the same garage for repairs on 16 June 2014 at an estimate of Rs.260,280 even without entering into an agreement. The bus remained idle, unprotected and exposing natural disasters unrepaired even up to 30 April 2015.

5 Accountability and Good Governance

5.1 Action Plan

An Action Plan for the year under review had not been prepared in terms of paragraph 4 of the Public Finance Circular No.01/2014 of 17 February 2014.

5.2 Budgetary Control

In reconciliation of the budgeted income with expenditure with the actual income and expenditure it was observed variances ranging from 20 to 327 per cent related to 11 items.

5.3 Tabling Annual Reports

The Annual Reports for the years 2012 and 2013 had not been tabled in Parliament even by 09 April 2015.

5.4 Unresolved Audit Paragraphs

Even though the matter related to the recovery of rent from the officers occupying the quarters of the University had been discussed at the committee meeting of Public Enterprises No.73 held on 04 October 2012 and a decision had been taken, it had not been implemented even up to 15 April 2015.

6 System and Controls

Deficiencies in System and Controls observed during the course of audit were brought to the notice of the Vice Chancellor from this to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Asset Control
- (c) Recovery of Rent for Quarters
- (d) Control of Stores
- (e) Motor Vehicle Control
- (f) Hostel Control
- (g) Control of Debtors and Creditors