

## **University of Sri Jayawardanapura - 2014**

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The audit of financial statements of the University of Sri Jayawardanapura 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 Sub Section 107(5) and Section 108 of the Universities Act, No. 16 of 1978.

### **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 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 judgements, 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. Section 111 of the Universities Act, No 16 of 1978 gives 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**

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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 of 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 Sri Jayawardanapura 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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Even though all the assets, liabilities, income, and expenditure should be included in the financial statements at their fair value according to the Sri Lanka Public Sector Accounting Standard No.1, fully depreciated assets costing Rs.1,223,917,203 which were being used had not been revalued and brought to account.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) Even though the land and building situated at Kohuwala purchased for Rs.61.5 million in the year 2001 had been transferred to the Institute of Aesthetic Studies of the University of Kelaniya as it was not suitable for the requirements of the University, this transfer had not been brought to account and an asset which was not used by the University had been included in the financial statements.
- (b) A sum of Rs.24 million had been paid up to the year 1998 in 03 installments for taking over a block of 05 acres from the Methsevana land for the Faculty of Medicine and land of 1 acre and 34.2 perches in extent only had been taken over. The activities relating to the taking over of the relevant land were progressing slowly and without assessing the block of land already taken over and bringing it to account, the amount paid had been further shown in the financial statements as unsettled advances.

#### **2.2.3 Unexplained Differences.**

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In reconciling the balances of two advance accounts items with the relevant schedules, differences totalling Rs.849,455 were observed.

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

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For the purpose of confirmation of the balance of Rs.90,249 brought forward in the Rehabilitation of Teaching and Laboratory Equipment Advances over a several years, the particulars of the persons or the institutions to whom the said advances were granted had not been furnished to audit.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) The amount receivable from 18 external service providing institutions within the University premises as electricity and water charges for the period from the year 2012 up to the end of the year under review amounted to Rs. 2,909,024 and RS.114,998 respectively. Nevertheless, action had not been taken for the recovery of the said amounts up to the date of audit.
- (b) Action had not been taken to settle the balances totalling Rs.1,994,373 older than 05 years existed in two Sundry Advance Accounts and a capital advance amounting to Rs.1,310,000 paid to the Chairman of the Maharagama Urban Council on 17 February 1999 had also been included in that amount.
- (c) After the grant of scholarships from the Mahapola Scholarship Fund the remaining money should be remitted to the Mahapola Fund. Nevertheless, due to the failure to take action accordingly, a balance aggregating to Rs.21,197,750 brought forward from several years had been shown as payable accounts in the financial statements.

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

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

#### Reference to Laws, Rules, Regulations, etc.

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#### Non-compliance

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(a) **Financial Regulations of the Democratic Socialist Republic of Sri Lanka.**

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Regulation No.387

Despite the blockage for obtaining overdrafts from a state bank, an overdraft balance ranging from Rs.20 million to Rs.80 million had been daily maintained in the Cash Account relating to the main Current Account maintained by the University over the year.

(b) Section 2.1 of Chapter 26 of the Establishments Code of the University Grants Commission and Higher Education Institutions

Although a verification of all the goods and fixed assets of the institution as at the end of the financial year should be carried out by the Board of Survey appointed for that purpose, a board of survey on the library books of the University had not been conducted after the year 2005. Even though a board of survey on the library books had been conducted in the year 2011, reports thereon had not been furnished after completing it properly.

- (c) Public Enterprises Circular No.95 dated 14 June 1994. Out of the income of the external project courses, a sum of Rs.9,546,462 had been paid to the non-academic staff as allowances extraneous to the salaries and allowances approved by the University Grants Commission.
- (d) Treasury Circular No. IAI/2002/02 dated 28 November 2002. A Register of Fixed Assets had not been maintained for the computers and accessories of the University.
- (e) Management Services Circular No.2/2014 dated 11 February 2014. After the approval for a research proposal submitted to the Research Committee is obtained, the research allowance can be paid with effect from the date as determined by that Committee. Nevertheless, research allowances aggregating to Rs.92,985,311 had been granted to all the officers entitled to the research allowance during the year 2014 without any detailed research proposal. Further, any officer or a lecturer who obtained the research allowance had not furnished the progress reports according to the circular.

## **2.5 Transactions not Supported by an Adequate Authority**

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The following observations are made.

- (a) Apart from the University Fund referred to in the Universities Act, 18 other Funds had been maintained as at the date of commencement of the year of accounts without the approval of the Treasury and five new Funds had been established and maintained again during the year 2014 without approval.
- (b) Even though it had been specified that all the funds acquired by a higher education institution from whatever the source should be credited to the University Fund in terms of Section 99 (d) of the University Act, contrary to that, the income of external degree courses of Rs.55,609,758 had been credited to other 22 Funds without approval of the Treasury.
- (c) (i) Deviating from the objectives of the University and without approval of the Ministry of Higher Education and the University Grants Commission, a day care centre had been commenced on 09 September 2014 and a sum totalling Rs.2,189,572 comprising Rs. 1,157,455 for the purchase of assets, Rs.562,500 for salaries of the teachers and assistants, Rs. 463,752 for preschool books and Rs.5,865 as other expenses had been spent from the Public Funds during the year under review.
- (ii) Without being complied with the directives of the Vice Chancellor's Fund, a sum of Rs.58,000 had been spent from the Vice Chancellor's Fund in order to open accounts at the People's Bank for 28 children enrolled at the commencement of the day care centre.

- (d) An investment amounting to Rs.294 million had been made by the University during the year under review without approval of the Ministry of Finance and the Ministry of High Education and the total value of the investment so made as at the end of the year under review amounted to Rs.709 million.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the University for the year ended 31 December of the year under review had resulted in a surplus of Rs.145,069,392 as against the deficit of Rs.341,172 for the preceding year, thus indicating an improvement of Rs.145,410,564 in the financial results during the year under review as compared with the preceding year. Increase in the income received from the external projects had mainly attributed to the improvement of the financial results.

### **4. Operating Review**

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#### **4.1 Performance**

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Recurrent expenditure amounting to Rs.2,092,976,415 had been incurred in the year under review for 11,079 students studying in the 04 Faculties of the University. As compared with that, recurrent expenditure of Rs.1,813,208,326 had been spent for 10,455 students in the preceding year. The cost per student according to the Faculties is given below and the average cost per student had increased by Rs.15,484 or 8.93 than the preceding year.

<b>Faculty</b>	<b>Cost per Student</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
	<b>Rs.</b>	<b>Rs.</b>
Faculty of Applied Science	231,416	218,901
Faculty of Humanities and Social Science	170,288	156,310
Faculty of Management and Commerce	137,587	123,438
Faculty of Medicine	382,780	355,329
Average cost per student	<b>188,913</b>	<b>173,429</b>

#### **4.2 Management Inefficiencies**

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The following observations made.

- (a) As it had been informed that the academic allowances of Rs.1,437,882 included in the salaries paid to a female lecturer released for service in the Government or Government affiliated institutions on the basis of salary reimbursement over a number of years cannot be reimbursed from the institution concerned, that money should be recovered from the respective lecturer. Nevertheless, no legal action had been taken thereon.

- (b) The value of the bonds remained recoverable from 62 lecturers who had proceeded abroad for obtaining Post Graduate/Doctorate degrees and not reported to the service according to the agreements amounted to Rs.96,977,398 as at 31 December of the year under review. Although a period from 5 to 25 years had elapsed from the violate of the agreements by 36 lecturers out of the aforesaid lecturers, no legal action whatsoever had been initiated by the University for the recovery of Rs.38,393,477 remained recoverable from the said lecturers.
- (c) As a result of absence of a common procedure for the selection of qualified persons from the University staff to involve in the foreign seminars, workshops and short term courses, and due to personal mediation of the officers for obtaining these courses, it cannot be ruled out in audit that this selection is carried out on the personal basis. Although the budgeted estimate for this purpose during the year under review amounted to Rs.6.5 million, the actual expenditure had been Rs.28.48 million. As the amount spent for this purpose in the preceding year was Rs.7.8 million, an increase of 363 per cent was shown.
- (d) Four Probationary Lecturers, whose service had been terminated on the ground of non-completion of the post graduate degree or the doctorate degree within a period of 08 years in terms of the amended Section 72 of the Universities Act and the University Grants Commission Circular No.150, had been reinstated in the post of Probationary Lecturer based on the subsequently presented post graduate certificates. Since those lecturers had been granted the post of Senior Lecturer Grade II contrary to the terms of the Universities Act, they had been entitled to a period of service exceeding 8 years, which they were not legally entitled and the opportunities have been provided to obtain sabbatical leave, gratuity allowances and the duty free vehicle permits, not entitled to them. Two of the above lecturers had been granted concessionary motor vehicle permits as at the date of audit and one female lecturer had been granted a sabbatical leave for a period of one year.
- (e) While the Secretary to the Ministry of High Education had informed the Vice-Chancellor by his letter No. HEM/2010 dated 10 August 2010 that the officers should not be recruited on casual or temporary basis without approval and further he had informed by the letter dated 31 October 2011 that the grant of permission for the maintenance of the temporary post of the Faculty of Management and Finance had been rejected, thirteen officers had been recruited on temporary and casual basis as at 30 June 2014 without approval and the salaries had been paid as the maximum of Rs.25,000 per month.
- (f) In terms of the University Grants Commission Circular No.721 dated 21 November 1997, where the lecturer completing a six year service period in the capacity of Lecturer Grade II submits a self-evaluation report and after that report is evaluated by the Evaluating Committee appointed by the Senate, the lecturer concerned can be promoted to the Lecturer Grade I as on the date of submission of the report. Contrary to that, due to the grant of promotions considering the date of completion of the six year service in the Lecturer Grade II as the effective date of the promotion, five lecturers had been granted promotions by backdating from 02 years to 11 years and as

a result of paying increments not entitled to them, arrears of salary amounting to Rs.473,567 had been paid.

- (g) A senior lecturer of the Accounting Department who had proceeded abroad to pursue a Post Graduate Degree had to be reported to the service on 27 October 2011 according to the agreement reached at his departure. Nevertheless, the lecturer concerned had not reported for the service accordingly and as such the Administrative Council had deemed that the lecturer had vacated the service on 09 May 2013. In accordance with the provisions of the Establishments Code pertaining to the higher education institutions, an appeal should be made within 03 months for reporting to the service. However, according to an appeal made on 28 January 2014, after 25 months, the Administrative Council had taken action to reinstate the relevant lecturer and placed him in his last salary by considering the period he did not report for the service as no-pay leave thus surpassing the provisions of the University Grants Commission Circular No.976 and the Establishments Code. The bond value amounting to Rs.4,036,446 recoverable for violating agreements had not been recovered and a sum of Rs.484,165 exceeding the lawful salary as well as a duty free vehicle permit which was not entitled to the lecturer had also been given.
- (h) While it had been reported that a Computer Application Assistant II of the Faculty of Post Graduate of the University had defrauded the registration fees and examination fees of several students registered with the Faculty of Post Graduate on several occasions and that he had committed an examination fraud by submitting a thesis already submitted by another student while following the course of Diploma in Mass-media at the Faculty of Humanities, the 428<sup>th</sup> Administrative Council had directed to interdict the relevant officer and take disciplinary action against the respective officer. Nevertheless, without conducting an inquiry the respective officer had been recommended for a transfer.
- (i) The report on the preliminary inquiry conducted on the misplacement of 4 boxes of milk packets brought for the refreshments served at the admission of new students to the University stated that a lecturer had acted in fraudulent manner. Accordingly, a charge sheet had been drafted and submitted stating that a formal disciplinary inquiry should be conducted against him. Nevertheless, a formal disciplinary inquiry had not been conducted up to date.
- (j) While six students registered for the courses at the Faculty of Post Graduate had not paid the course fees of Rs.220,750, they had been allowed to sit the examinations and complete the Degree.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) Out of the 18 lecturers who had commenced researches through the research grants during the period from the year 2007 to 2011 had not submitted research reports even by the end of the year under review. The University had paid a sum of Rs. 5,209,759

as research grants in respect of these researches. However, the management had not taken necessary action either to obtain the aforesaid research reports or to recover the money obtained by each lecturer, even by the date of audit.

- (b) According to the Section 6 (I) of the Management Services Circular No.2/2014 dated 11 February 2014, it had been specified that the research expenditure should not be incurred from the Consolidated Fund. Nevertheless, a sum of Rs. 5 million had been allocated from the Government provisions for the research expenditure. Although the above Circular states that a research should be personally carried out to obtain research grants, 21 lecturers had obtained research grants by submitting the particulars of the researches due to be carried out through the research grants.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) Although the net surplus of the project accounts should be transferred to the University Fund after the completion of a project, the net surplus amounting to Rs.2,015,253 of 8 projects completed during the year under review had been transferred to the Development Funds which represented the officers in charge of the project.
- (b) Nine lecturers recruited to the permanent service of the University had obtained Visiting Lecturer Allowances amounting to Rs.359,500 for the lectures conducted for the internal students of the University during the working hours of the weekdays. As the University pays salaries and allowances for conducting lectures during the working hours, the reasons attributed to make payment of an additional Visiting Lecturer Allowance had not been explained to audit.
- (c) A lecturer engaged in examining an answer paper packet of the subject of Sociology Research Method of the Bachelor of Arts External Degree II examination conducted in March 2014 had been paid thrice for that task. At the third time examination of the answer paper packet containing 200 answer papers, the respective lecturer had obtained a sum of Rs.24,240 as evaluation charges stating that 202 answer papers had been examined. Although the examination of answer papers are normally carried out twice, the reasons given rise to the third time examination and the manner in which the payment was made exceeding the actual number of answer papers contained in the relevant packet had not been explained to audit.
- (d) As a Register of Fixed Assets should be maintained according to the Treasury Circular No.842 dated 19 December 1978, a sum of Rs.1,147,412 had been paid to a private company for the preparation of a Register of Fixed Assets in the year 2005. Nevertheless, such a register had not been prepared even by the end of the year under review.

#### **4.5 Underutilization of Funds**

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Out of 71 Endowment Funds totalling Rs.21,311,104, a sum of Rs.18,101,513 only had been invested. Action had not been taken for the investment of Rs.3,209,591 remaining in the Funds.

#### **4.6 Idle an Underutilized Assets**

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For the purpose of providing hostel facilities for 300 students, a land 41.31 perches in extent situated in Boralesgamuwa had been purchased on the payment of Rs.1.6 million to the Western Provincial Council on 05 May 1998. Although the tenure of the said land had been transferred to the University on 06 August 2003 by the Divisional Secretary, Kesbewa, the land had not been used for a useful purpose since that date and any development work had also not been done.

#### **4.7 Identified Losses.**

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The following observations are made.

- (a) The Legal Division of the University had prepared and signed a rent agreement by including conditions in a manner causing financial losses to the University. As such, the request made by the University to extend the period of agreement of a hostel obtained on rent on the verge of its termination had been turned down by the agreed party. Instead, the agreed party had made a request to pay twofold of the rental for the period in which the hostel is used in accordance with the Section 23 of the old agreement. Accordingly, the University had excessively paid a sum of Rs.3, 281,840 for the period during which the hostel was used after the end of the agreed period.
- (b) As rent for a hostel had been paid based on the rates contrary to the Cabinet Decision No.2004/ED/HE/63 dated 23 December 2004, a sum of Rs.12,819,505 had been excessively paid to the respective institution by the end of the year of account.
- (c) Action had not been taken either to disconnect the CDMA phone used for the Limnology project completed in the year 2004 or to provide it to another Division which requires the phone facility. As a result, fixed charges amounting to RS.113,050 had been paid for 119 months from that year to the telephone company.
- (d) The approval of the Cabinet of Ministers for the Drain Water Disposal Project valued at Rs.70 million had been received on 06 August 2003 and for the preparation of preliminary plans for the said constructions, a sum of Rs.2,336,090 had been paid to the Water Supply and Drainage Board. Although the University had decided to discontinue this project, the expenditure incurred thereon had been brought to account as work-in-progress in the financial statements.

#### **4.8 Personal Administration**

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The following observations are made.

- (a) There were 267 vacancies in 48 posts of the approved cadre of the University by the end of the year under review. The University had not taken any action to fill those vacancies.
- (b) Without obtaining the approval of the Department of Management Services the University had recruited 88 officers to the permanent staff of 15 posts exceeding the approved cadre by the end of the year under review.

- (c) The prior approval of the Department of Management Services should be obtained for creating new posts in accordance with the Paragraph 02 of the Management Services Circular No.3/2014 dated 31 March 2014, whereas 05 officers had been recruited to 04 posts which had not been approved.

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

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### **5.1 Unresolved Audit Paragraphs**

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Although instructions had been given at the Committee on Public Enterprises that a method should be devised for the establishment of arrival, departure and leave of the academic staff in terms of the Section 3.1 of the Paragraph 10 and the Section 1.6.1 of the paragraph 10 of the Establishments Code of the University Grants Commission and the Higher Education Institutions, such a method had not been formulated. Accordingly, the accuracy of the salaries and allowances amounting to Rs.1,087,509,732 paid to the academic staff could not be established.

## **6. 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 from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets Management
- (b) Accounting
- (c) Internal Control of Research Grants
- (d) Management of Self Financing Courses
- (e) Stores Control
- (f) Recovery of Agreement and Bonds
- (g) Procurement
- (h) Internal Control of Evaluation of External Examinations Question Papers.