

University of Uva Wellassa Sri Lanka - 2014

The audit of Financial Statements of the University of Uva Wellassa, Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and statement of financial performance, statement of changes in equity and cash flow statement, 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 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 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 Uva Wellassa, 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 Sri Lanka Public Sector Accounting Standards

Instances of non-compliance with the Standards observed are given below.

(a) Sri Lanka Public Sector Accounting Standard 02.

- (i) A sum of Rs. 187,359,260 received for the acquisition of assets which should have been accounted under investing activities in the statement of cash flow had been accounted under financial activities.
- (ii) Cash out flows of Rs. 158,236,832 related to purchase of fixed assets shown under investing activities according to the statement of cash flow in the year under review had been accounted on accrual basis.

(b) Sri Lanka Public Sector Accounting Standard 09.

Although 293 unusable students handbooks costing Rs. 116,895 printed in the year 2009 had been included in the stock of stationery at the end of the year under review, the accounting policy regarding such valuation of stocks had not been disclosed.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although the University had prepared the accounts on accrual basis, provisions for the expenses of Rs. 2,925,867 payable in respect of the year under review and for the income receivable amounting to Rs. 266,104 had not been made.
- (b) An overprovision of Rs. 345,000 had been made for the expenses of external courses payable in the preceding year and expenses of Rs. 181,070 related to the year under review had been written off against the overprovisions. Accordingly, a disclosure regarding the expenditure of the year under review had not been made.
- (c) Capital Assets totalling Rs. 305,023 purchased from recurrent expenditure objects had not been brought to account under the property, plant and equipment in the Statement of Financial Position as at 31 December of the year under review.

2.2.3 Unreconciled Control Accounts.

Differences of Rs. 660,671 and Rs.765,100 in bursaries receivable and Mahapola receivable respectively were observed at a reconciliation of the financial statements and schedules furnished for the year under review. Further it was observed that unidentified and receivable bursary amounting to Rs. 170,321 which had been brought forward since the preceding year had been included.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following 04 items of accounts totalling Rs.4,408,295 shown in the financial statements was not made available for audit.

Item of Account -----	Value ----- Rs.	Evidence not made available -----
(i) Refundable Deposits	1,997,840	} i. Age Analysis ii. List of Individual Balances iii. Deposit Registers
(ii) Refundable Security Deposits	647,953	
(iii) General Deposits - Recurrent	1,524,607	
(iv) General Deposits -Capital	<u>237,895</u>	
Total	<u>4,408,295</u>	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Research allowances amounting to Rs. 93,546 paid to a Professor of the University of Peradeniya for the period from January to July 2011 on the basis of reimbursement had not been recovered.
- (b) Recovery of a balance of Distress loans amounting to Rs. 165,183 granted to two officers in the years 2007 and 2008 included in the distress loan balances amounting to Rs. 7,179,806 as at 31 December in the year under review had been suspended.
- (c) Recovery of balances of Festival advance loan amounting to Rs. 10,000, granted to three offices in April 2010, 2011 and 2013 included in the festival advance loan balance amounting to Rs.96,000 as at 31 December in the year under review had been suspended.
- (d) Appropriate action had not been taken to settle a sum of Rs. 61,989,351 payable to Central Engineering Consultancy Bureau which had carried out the construction works of the University during the period from 2006 to 2015.

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

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Universities Act, No. 16 of 1978. (i) Section 37(1)	Although the Registrar of a University should be appointed on the recommendations of a Selection Committee of which the composition is specified, the Vice Chancellor had appointed a retired Registrar on an assignment basis subjected to the approval of the Governing Council.
(ii) Section 108 (3)(2)	Although the Auditor General should be informed the steps taken or proposed to be taken regarding the issues shown in the Report of the Auditor General within three months after receiving the report, action had not been taken accordingly regarding the Report of the Auditor General for the year 2013.
(b) Section 14(1) of the Finance Act No. 38 of 1971	A copy of the Draft Annual Report in the year under review had not been furnished to the Auditor General.
(c) Section 10 of the Employees' Provident Fund Act, No. 15 of 1958 as amended by Employees' Provident Fund (Amendment) Act, No. 01 of 1985 and Employees' Trust Fund Act, No. 46 of 1980.	Action had not been taken, in terms of the provisions, to remit the contributions to the Funds in respect of 28 trainees engaged in the duties of Clerical and allied Grades for more than 02 years.
(d) Treasury Circular No. 842 of 19 December 1978.	A Register of Fixed Assets for property, plant and equipment valued at Rs. 2,100,000,044 as at 31 December of the year under review had not been maintained.
(e) Sections 7.1 and 7.2 of Public Enterprises Circular No. PED/12 of 03 June 2003.	Operation Manuals covering the main fields of operations of the University had not been prepared.
(f) Section 03 of the Stamp Duty Act (Special Provisions) No. 12 of 2006 as amended by Notification published in Extraordinary Gazette No. 1530/13 Dated 01 January 2008	Even though stamp duty of Rs. 25 should be levied on making payments of over Rs.25,000, according to test check action had not been taken in terms of the orders related to the payments of Rs. 1,019,661 at 16 instances.
(g) Public Finance Circular No. 449 of 21 February 2011	Even though the maximum amount payable for appointments on the assignment basis not exceeding the period of 45 days is Rs.30,000, prior approval had

not been obtained from the Department of Public Finance for the payment of Rs.718,539 made exceeding the limit of Circular Provisions for 03 retired officers on assignment basis.

- (h) Section 01 of Chapter xxiv of the Establishments Code of the University Grants Commission and Higher Educational Institutions and the Financial Regulation 758. Verification of Stores in addition to the Annual Survey had not been carried out at the due time intervals for the year under review.
- (i) Paragraph. 5(viii) of the Circular of University Grants Commission No. 920 of 05 February 2010. Bonds of 26 Lecturers had not been revised in making salary revisions.
- (j) Establishments Circular No. 12/2013 dated 29 August 2013 of the Chairman of the University Grants Commission. Action had not been taken, in terms of the provisions in the Circular, to recover the rents of the quarters from the officers residing in the bachelors, joint quarters and senior officers' quarters.
- (k) Paragraph No. 7.6 of Chapter v of the Establishments Code of the University Grants Commission and for Higher Educational Institutions. A sum of Rs. 8,220,772 was due to the University from 02 Lecturers breach of bonds and the contract agreements.

03. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the University for the year ended 31 December 2014 amounted to a deficit of Rs.59,812,116 as compared with the corresponding deficit of Rs. 123,412,661 for the preceding year. As such the financial results for the year under review as compared with the preceding year indicated as improvement of Rs.63,600,545.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The cost incurred for academic activities of 1,900 students in the year under review amounted to Rs. 457,802,863 and the cost per student amounted to Rs. 240,949. The corresponding academic cost for 1,423 students in the preceding year amounted to Rs.401,635,931 and the academic cost per student amounted to Rs. 282,246. Therefore, the Academic cost per student had been decreased by Rs. 41,297 in the year under review as compared with the preceding year.

- (b) The Lecturer, student ratio of the University had been 1:16 as compared with the average Lecturer, student ratio of 1:17 of the other Universities of the Island in the year under review.
- (c) Even though it had planned to enroll 605 students for the year under review according to the Corporate Plan, only 507 students had been enrolled. Accordingly, it had shown a decrease of, 98 students that is, 16 per cent of the expected number.
- (d) Income, earned from conducting Self income earning courses in the year under review as compared with the year 2013, had decreased by 37 per cent.

4.2 Management Inefficiencies

Even though the Cabinet of Ministers had, at the meeting held on 10 February 2008, decided under the Cabinet Memorandum No.05/0183/035/001 on the establishment of the University of Uva Wellassa, that the land belonging to the Ministry of Industries should be transferred to the Ministry of Higher Education, action had not been taken to get the legal title of the land 30.9667 hectares in extent already allocated to the University in favour of the University.

4.3 Utilization of Funds

The following observations are made.

- (a) A sum of Rs. 71,763,168 out of the provision of Rs. 230,000,000 made for the capital expenditure in the revised budget estimate in the year under review had been saved. It was 31 per cent of the total Capital Provisions.
- (b) The entire provision of Rs. 7,000,000, made for 05 objects of Capital expenditure such as Information Technology Development, Student Centered Learning, Entrepreneur Skill Development, Business Consultation Unit and Newly Generated Items, had been saved without being incurred.
- (c) Only a sum of Rs. 554,266 out of the budgeted Capital Provision of Rs. 25,000,000 made for the encouragement of researches in the year under review had been utilized. Accordingly, Provision amounting to Rs. 24,445,734 had been saved and it was 98 per cent of the total provision.
- (d) Even though a sum of Rs.3,323,000, granted for tissue culture project by the District Secretary, Badulla had been credited to the General Deposit Capital Account in the year under review and that project had not been implemented even by 31 March 2015.

4.4 Uneconomic Transactions

Even though a sum of Rs. one million out of the income earned from external courses in every month of the year under review had remained in the current account, action had not been taken to earn an interest thereon by investing the same.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Five fire proof safes valued at Rs.322,560 purchased on 30 June 2010 had been idle without being utilized even by 31 December in the year under review.
- (b) 3- Axis CNC Machine valued at Rs.14,060,480 purchased in the year 2012 for the use of the Engineering Workshop had remained idle without being utilized even by 31 December in the year under review.
- (c) Even though Fixed Assets valued at Rs.1,117,933 had been granted to the External Courses Division through “HETC” Project of the Ministry of Higher Education, it was observed that such assets had not been productively utilized for fulfilling the objectives of the Division of External Courses.
- (d) It was observed that the Computer Accounting Software valued at Rs.222,768, purchased in the year 2013 for facilitating the administrative activities of the Finance Division of the University, had only been used for printing cheques at the moment.

4.6 Apparent Irregularities

Action contravening the Guidelines 2.8.5, 5.2.1(a), 6.3.2, 6.3.3, 6.3.3.1(a) of the Procurement Guidelines had been taken in the selection of supplier for the purpose of taking photographs and videoing the Convocation held in the year under review and it had infringed the objectives spelt out in guideline 1.21 and ethics spelt out in guideline 1.4. Even though it had stated that a photograph of size 10”x 12” had been valued at Rs. 100/- according to the bids presented by the selected supplier, it was disclosed at the audit that each photograph had been sold to the Undergraduates at a cost of Rs. 336. Accordingly, the University had encouraged and helped to earn a sum of Rs.104,784 in an illegal manner. Even though the University has the rights in this connection, action had not been taken to recover a certain amount to the University Fund.

4.7 Weaknesses in the Contract Administration

The following observations are made.

- (a) Even though the garment industrial building had been modernized at a cost of Rs.41,247,644 in year 2008, the ceiling had being damaged due to seepage of water from the roof. Action had not been taken to renovate the roof of the said building during the period from January to April of the year under review.
- (b) Although there was a possibility of rectifying the preparation of required BOQ after preparing the project plans for constructions, variances in actual values in performing the work and in the objects of expenditure in preparing the BOQ continuously by the Central Engineering Consultancy Bureau had been observed ranging from 50 per cent to 300 per cent.

- (c) Failure to take action even by the year under review to commence 12 construction projects, which should be commenced in the year 2010 and completed in the year 2013, could lead to problems in minimizing cost overruns.

4.8 Staff Administration

The following observations are made.

- (a) Action had not been taken to make recruitments for 70 vacancies out of 213 academic staff of the University as at 31 December of the year under review.
- (b) The post of Librarian of the University to be appointed in terms of Section 33 of Part vi of the Universities Act, No. 16 of 1978 had remained vacant since the year 2006 up to the year under review.
- (c) The post of Registrar had remained vacant with effect from 12 March 2014 and University had failed to fill the vacancy in terms of Section 37(1) of the Universities Act, No. 16 of 1978.
- (d) The University had failed to fill 70 vacancies out of 113 approved non-academic staff as at 31 December of the year under review.
- (e) Even though the University had 32 laboratories, it had failed to fill vacancies in 10 posts out of 12 posts in the approved Cadre of Technicians in the year under review.
- (f) Action had been taken according to the letter of appointment No. UGC/HR/1/2/452 of 05 September 2008 for recruitment to the post of Senior Assistant Registrar without the minimum qualifications specified in the Circular No. 794 dated 08 January 2002 of the University Grants Commission.
- (g) The Employee Development Training Course, inclusive of the learning / teaching methods, to be completed within one year with effect from the date of appointment to confirm in appointment in terms of the Letter of Appointment of 05 Lecturers of the Academic Staff had not been completed.
- (h) The appointments of four Lecturers had become null and void as the Registrar of the University had been a member of the panel which conducted interviews to appoint Lecturers to the academic staff in terms of the provisions in the University Grants Commission Circular No. 166 dated 06 April 1982.
- (i) Even though a post of Bookkeeper had not been approved in the approved cadre of the University, service of two employees had been obtained from the private institution which provides services to the University at present for the post of Bookkeeper, according to the decision of Procurement Committee No. 638/2014 of 24 July 2014.

4.9 Utilization of Motor Vehicles.

The agreement entered into for the hire of motor vehicles included a condition for making payment for the specified number of kilometer to be run per month even if the relevant running is less than the specified number. Accordingly, a sum of Rs. 914, 878 had been paid in the year under review for 29,897 kilometers not run in respect of 05 vehicles.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the Financial Statements for the year ended 31 December 2014 should have been presented to the Auditor General within 60 days after the close of financial year in terms of the Public Finance Circular No. PF/PE.21 of 24 May 2002, the financial statements for the year under review had been presented to audit only on 31 March 2015.

5.2 Corporate Plan

The following observations are made.

- (a) Twenty one projects, to be implemented during the year under review, included in the Corporate Plan for the period 2014 - 2018 had not been commenced.
- (b) A review of operating results for the preceding three years had not been included in the Corporate Plan prepared in terms of the paragraph 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Further, the financial values of the targets to be achieved had not been indicated and as such the Corporate Plan had not been prepared in a manner to enable the evaluation of the annual progress.

5.3 Action Plan

The following observations are made.

- (a) It was observed at an examination of the Action Plan of the year under review that the particulars regarding the updated organizational structure of the Institution, approved cadre and actual cadre at present and the Internal Audit Plan had not been included in the Action Plan of the year under review in terms of the paragraph 04 of the Public Finance Circular No. 01/2014 of 17 February 2014.
- (b) Performance Reports had not been prepared in order to measure the physical progress of the Action Plan of the year under review.
- (c) Even though a Strategic Management and Development Committee had been established for measuring the physical progress of the Corporate Plan and the Action Plan, such Committee had neither convened monthly nor carried out a progress review.

5.4 Audit and Management Committees

The following observations are made.

- (a) Even though at least 04 Audit Committee meetings per annum should have been held in terms of paragraph 15 of the Public Enterprises Circular No. 55 dated 14 December 2010, only 02 Committee meetings had been held in the year under review.
- (b) A delay was observed in implementing the decisions taken at the Thirty Second meeting of the Audit Committee on updating and implementation of Computerized Accounting System purchased at present, issuance of letters of assigning duties to all officers in the non-academic staff, maintenance of the Register of Audit Queries and replying the audit queries.

5.5 Procurement Plan

Even though the University possesses a web page and sufficient facilities of Information Technology, necessary action had not been taken to implement the electronic procurement activities in terms of the Guideline 9.8 in the Procurement Guidelines.

5.6 Budgetary Control

The following observations are made.

- (a) Comparison of the estimated expenditure with the actual expenditure revealed variances ranging from 13 per cent to 61 per cent in the provisions made for 05 recurrent objects and variances ranging from 15 per cent to 91 per cent in the provisions made for 07 Capital objects, thus indicating that the budget had not been made use of as an effective instrument of management control.
- (b) Sums of Rs. 2,782,153 and Rs. 94,500 had been spent on Employees' Development Institute and purchase of Cloaks respectively in the year under review without making Capital Provisions in the Budget.

5.7 Unresolved Audit Paragraphs

The University had failed to rehabilitate the Waste water Recycling Project up to date in accordance with the instructions given at the meeting of the Committee on Public Enterprises held on 21 September 2012.

6. Systems and Controls

Weaknesses in the 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) Assets Management
- (b) Stores Control
- (c) Financial Management and Expenditure control
- (d) Human Resources Management
- (e) Utilization of Motor Vehicles.