

## **Wayamba University of Sri Lanka - 2014**

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The audit of financial statements of the Wayamba University of Sri Lanka 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 Section 13 (1) of the Finance Act, No.38 of 1971 and Sub-section 107(5) and Section 108 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**

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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 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 judgments, 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 the 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**

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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 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 Wayamba University of 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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Action had not been taken to revalue and bring to account 04 items of fixed assets valued at Rs.54,793,397 which were further being used for the operating activities of the University although their book values were zero, in terms of Sri Lanka Public Sector Accounting Standard No. 07.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The University had not identified the accounting policies with regard to the accounting of Government grants and amortization of assets established by the Government grants. The Government grants as at the end of the year under review was Rs.2,568,722,000 and the net value of non- current assets represented thereby amounted to Rs.1,156,324,406.
- (b) The total capital grants received by the Wayamba University from the General Treasury during the year under review amounted to Rs.604,100,000 and the recurrent grants amounted to Rs.703,275,000. Nevertheless, according to the financial statements, capital grants and recurrent grants amounted to Rs.624,675,000 and Rs.682,700,000 respectively. The reason for this difference was that revenue grants of Rs.20,575,000 had been accounted as the capital grants.
- (c) According to the Board of survey reports, the unusable goods valued at Rs.45,644 and the goods which were not being used valued at Rs.1,708,108 had been identified as at 31 December of the year under review. Nevertheless, necessary adjustments had not been made to show the fair value of those goods.
- (d) A sum of Rs.5,341,038 spent by the University for the two hostel buildings at the Makandura premises which had not been formally handed over to the University after completion of the constructions, had been capitalized under the buildings.
- (e) Even though property, plants and equipment costing Rs.2,638,573 identified as unusable goods in terms of the board of survey reports had been disposed of, action

had not been taken to eliminate its cost and the accumulated depreciations from the books.

- (f) Out of Rs.37,500,000 received as the provisions for the rehabilitation and development of capital assets of the year under review, a sum of Rs.2,774,000 had been spent for recurrent activities and it had been brought to account as recurrent expenditure.
- (g) Action had not been taken to identify and bring to account a sum of Rs.306,500 that existed in two state banks in the name of the University.
- (h) A sum aggregating to Rs.175,698 made up of a stock shortage of Rs.31,250 occurred at the stores in the year 2012 and Rs.144,448 spent for the proposed but non-implemented the certificate course of Business Administration had been written off on the decision of the Finance Committee without a formal approval.
- (i) A sum totaling Rs.99,329 comprising of Rs.38,114 and Rs.61,215 respectively spent by the University for the Sri Lanka Agriculture Research Policy Council Course and the External Training Course had been brought to account as an expenditure of the University without being accounted as an expenditure of the respective course.

### **2.2.3 Lack of Evidence for Audit**

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Evidence such as deeds of lands , transfer orders, register of fixed assets and schedules was not made available for audit in respect of the assets totalling Rs.1,111,768,027.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken to settle the staff loan of Rs.8,990, distress loan balance of Rs.116,356, advances of Rs.470,597 given for the purchase of library books and periodicals and construction advances of Rs.2,486,208 which continued to exist over a period from 03 to 19 years.
- (b) Action had not been taken to settle a payable sum of Rs. 482,503 which continued to exist over a period of one year.
- (c) The total of 06 items of other liabilities amounting to Rs.719,550 and a sum of Rs.1,751,587 included in the payable account balance which continued to exist over a period of one year had been shown in the financial statements by the end of the year under review.
- (d) Out of the advance given for the purchase of two magazines in the years 2006, 2008 and 2009, a sum of Rs.307,045 had not been settled even by the end of the year under review.

**2.4 Non-compliance with Laws, Rules, Regulations etc.**

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The following instances of non-compliance were observed.

<b>Reference to Laws, Rules, Regulations</b>	<b>Non-compliance</b>
(a) Section 4.1 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and the Circular No.12/2013 dated 29 August 2013 of the University Grants Commission.	I. Deviating from the provisions of the circulars, an allowance of Rs.220,000 at Rs.10,000 per month had been paid to the Registrar and the Librarian during the year under review for the supply of official quarters according to the decision of the Board of Control. An approval relating to the payment of an allowance of this nature to the public officers had not been furnished to audit.  II. Further, in view of residing in the Executive Officers' Hostel of the University, a sum of Rs.7,950 had been recovered from the Registrar during the year under review. Accordingly, the doubt that the Registrar had resided in the University premises on the payment of a fee cannot be ruled out in audit.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 271 (2)(a)(b)	Without taking action in accordance with the regulations on the unpaid salaries of Rs. 111,113 from the year 2001 to up to 31 December 2013, it had been shown as current liabilities.
(ii) Financial Regulation 396 (d)	Action had not been taken in accordance with the regulations with regard to 16 cheques valued at Rs. 200,649 which had exceeded a period of six months from the date of issue but not presented for the payment.
(c) Management Services Circular No.02/2014 dated 11 February 2014	Without following the procedure stated in the circular, a sum of Rs.24,238,719 had been paid to 157 lecturers and other officers of the Wayamba University as research allowances during the year under review. Although this circular had proposed a procedure to enable this allowance to be paid to other senior officers in the Government service, regardless of the conditions of that proposal, this allowances had been paid to the University staff on an easy basis.

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operation of the University for the year ended 31 December 2014 had resulted in a deficit of Rs.101,915,000 as compared with the corresponding deficit of Rs.135,853,000 for the preceding year, thus indicating an improvement of the financial result by Rs.33,938,000 for the year under review as compared with the preceding year.

**3.2 Analytical Financial Review**

The following observations are made

**(a) Financial Performance**

The following observations are made on the financial performance.

- (i) Even though the income earned by the University had increased by 71 per cent during the year under review, investment income included therein had increased by Rs.1,472,000 as compared with the preceding year and it had been 4,329 per cent as a percentage. Further, the value of investments had augmented by 73 per cent as compared with the preceding year. As pointed out by the audit in the preceding year, a procedure had been followed to earn interest income through the short term investment of surplus balances existed in the current accounts during the year under review citing the reason for the above condition.
- (ii) The total expenditure of the University for the year under review had increased by 18 per cent as compared with the preceding year. An increase of Rs.117,427,271 was observed in the expenditure relating to salaries and wages, travelling and subsistence allowances, supplies and consumable goods, contractual services, other recurrent expenditure and bursary and maintenance services and its percentage had ranged from 5 per cent to 109 per cent. Within the increase in this expenditure, a significant increase in the payment of travelling expenses to the officers was observed.

**(b) Financial Position**

The following observations are made on the financial position

- (i) As compared with the preceding year, the non-current assets had increased by 42 per cent as at the end of the year under review. 20 per cent increase in the property, plants and equipment and 108 per cent increase in the work-in- progress had mainly attributed to the above increase.
- (ii) Non-current liabilities had increased by 29 per cent as compared with the preceding year and the unspent capital grants of Rs.39,000 in the preceding year had increased up to Rs.12,754,000 during the year under review. However, it was not observed as a favourable trend.

- (iii) The Accumulated Fund was continuously diminishing and it had further diminished by Rs.101 million as at the end of the year under review. The percentage thereof was 11 per cent as compared with the previous year.

### **3.3 Legal actions instituted against the University**

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A private contractor who had entered into an agreement with the University in the year 2012 for the construction of an individual hostel at the Kuliypitiya premises at a contract value of Rs.27,000,952 and abandoned the contract half way had filed a case in the court requesting to suspend the recovery of his security amounting to Rs.6,000,000. As a result, the contract which was scheduled to be completed in August 2012 had not been completed even by July 2015.

## **4. Operating Review**

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### **4.1 Performance**

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Information relating to the expenditure incurred on each faculty, number of students and the cost per student during the year under review and the previous year is given below.

<b>Faculty</b>	<b>Details</b>	<b>Previous Year</b>	<b>Year under Review</b>	<b>Increase as a percentage</b>
-----	-----	-----	<u>2014</u>	-----
		<u>2013</u>		
(i) Faculty of Business Studies and Finance	Expenditure (Rs.)	<b>73,543,884</b>	<b>91,453,057</b>	<b>24</b>
	No of Students			
	Cost Per Student (Rs.)	<b>1,312</b>	<b>1,521</b>	<b>15</b>
		<b>56,055</b>	<b>60,126</b>	<b>07</b>
(ii) Faculty of Applied Science	Expenditure (Rs.)	<b>74,208,889</b>	<b>95,292,894</b>	<b>28</b>
	No of Students			
	Cost Per Student (Rs.)	<b>428</b>	<b>461</b>	<b>07</b>
		<b>173,385</b>	<b>206,709</b>	<b>19</b>
(iii) Faculty of Agriculture and Plantations Management	Expenditure (Rs.)	<b>84,163,292</b>	<b>100,091,898</b>	<b>18</b>
	No of Students			
	Cost Per Student (Rs.)	<b>439</b>	<b>454</b>	<b>03</b>
		<b>191,716</b>	<b>220,446</b>	<b>15</b>
(iv) Faculty of Livestock, Fisheries and Nutrition	Expenditure (Rs.)	<b>82,539,376</b>	<b>106,824,982</b>	<b>29</b>
	No of Students			
	Cost Per Student (Rs.)	<b>393</b>	<b>420</b>	<b>06</b>
		<b>210,024</b>	<b>254,345</b>	<b>21</b>

The following observations are made in this connection.

- (a) The cost per student of the Faculty of Livestock, Fishery and Nutrition and Faculty of Agriculture and Plantation Management had increased as compared with other faculties and it was 423 per cent and 366 per cent respectively as a percentage as compared with the Faculty of Business Studies and Finance.
- (b) As compared with the preceding year, an increase in the cost per student of the Faculty of Business Studies and Finance, Faculty of Applied Sciences, Faculty of Agriculture and Plantation and the Faculty of Livestock, Fisheries and Nutrition by 7 per cent, 19 per cent, 15 per cent and 21 per cent was observed respectively.
- (c) Significant number of students selected for four faculties of the University had gone on transfers to other universities on various grounds. Out of the total number of students registered in the University during the academic year, 155 students had gone on transfers to other Universities and it was 15 per cent of the number of registered students. Accordingly, the doubt, that the resources allocated for these transferred students within the University had been fruitless, could not be ruled out. A proposal had not been made even in the year under review for the prevention of wasting these resources by paying attention on the students those who are qualified but deprived of the opportunity to enter the Universities.
- (d) Although the standard ratio between the number of students and the academic staff of the Faculty of Business Studies and Finance should stand at 18:1, the actual ratio stood at 44:1 and it was observed as an extremely unfavourable position. The standard ratio of other three faculties was 10:1, whereas the actual ratio stood at 12:1 and as such the actual ratio had slightly increased than the standard ratio.

#### **4.2 Management Inefficiencies**

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The following observations are made in this connection.

- (a) The agreement which had been entered into with the University by three lecturers of the University at the time of proceeding abroad had been breached by them in the years 2001, 2003 and 2014. As a result, an arrears amounting to Rs.3,826,651 further remained recoverable to the University, whereas action had not been taken for the recovery of that amount even in the year under review. Due to adopting an easy policy of this nature, the doubt that the lecturers who are proceeding abroad in future utilizing the Government resources would follow this incident as a precedent, could not be ruled out in audit.
- (b) Library books valued at Rs.4,130,710 had been purchased from an exhibition in the year 2008 for the library situated at the Makandura premises. It had been pointed out by our previous audit queries and reports that many matters of the procurement procedure had not been followed in the said purchase and the requirement, prices and edited year of the books as well had not been taken into consideration. Although the Board of Control of the University had appointed a committee to examine and report this transaction, without taking a formal course of action, a sum of Rs.4,053,786 had been paid to the respective institution during the year under review. It was observed that a significant amount from the expenditure incurred for the purchase of books had been a fruitless expenditure and

the parties responsible for the deviations occurred in the said purchase had not been properly ascertained and necessary course of action had not been taken.

- (c) In terms of the letter No.UGC/HR/09/01/75 dated 08 September 2008 of the Chairman of the University Grants Commission, having obtained the sanitary service and maintenance service from a man power institution until the vacancies of the Labour Grades are filled , a sum of Rs.3,644,770 had been paid for that purpose during the year under review. Although the agreement entered into with the relevant company terminated on 16 September 2013, the service period of the relevant institute had been extended from time to time without stepping into a competitive procurement procedure again.
- (d) Without conducting a formal study with regard to the students' need on the hostel facilities, a building had been obtained on rent on the payment of Rs.2,700,000 for the hostel facilities of 89 students. Accordingly, the expenditure incurred for one student was Rs.30,337 per annum. It was observed that 150 students could be accommodated within this building.
- (e) Although the constructions of animal pens had been completed by the Makandura Livestock Development Project during the year under review, it had not been reported to the Accounts Division and as a result, the cost of Rs.2,469,713 incurred thereon had not been capitalized.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) Out of the amount totalling Rs.10,500,000 received from the University Grants Commission for the staff development of the University from the year 2012 up to the year under review, Rs.1,348,618 or 13 per cent had not been utilized for the relevant purpose.
- (b) Although certain constructions had been carried out by the Maintenance Division of the University, building materials amounting to Rs.1,647,590 purchased under the Livestock Development Programme had not been included in the inventories of the Mankandura Maintenance Division.

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

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The following observations are made.

- (a) An amount of 5,000 Pounds (Rs.980,200) granted to a female lecturer of the University for the researchers conducted after the Post Graduate Doctorate Degree had been credited to her personal account. The crediting of money on the approval granted by the letter No.C/141/48SUPP dated 21 January 2014 of the Board of Control of the University despite the objections regarding this matter had been contentious. The fact that this lecturer had received money for the relevant researches as a result of her being a lecturer of the Sri Lanka Wayamba University, could not be ruled out in audit.



- (b) Preparation of estimates, signing agreements and payment of money of the projects of the construction of two student hostels at the Makandura premises had been carried out by the Ministry of Higher Education. The responsibility on the ground preparation activities before the commencement of the construction had been entrusted to the University and the University had spent Rs.1,640,510 for that purpose. However, without any agreement between the contractor and the University, the University had paid Rs.5,341,038 from the University Fund in respect of the construction of buildings of the project.

#### **4.5 Uneconomic Transactions**

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The following observations are made

- (a) When hostels were taken on rent by the University, a sum of Rs.246,000 exceeding the assessed value had been paid and the approval of the Board of Control had also been given in that respect.
- (b) Two lecturers of the Makandura premises had hired two vehicles to proceed Colombo on a same day in the year under review and paid rent totalling Rs.10,998 made up of Rs.5,850 and Rs.5,148 and it was observed uneconomical.
- (c) In terms of the Ministry of Finance and Planning Circular No.150 dated 07 December 2010, once the new vehicles are purchased the vehicles should not be hired, whereas the University had purchased 05 motor vehicles in the year 2013 and a sum of Rs.2,724,456 had been paid for the hired vehicles. It was an increase of 50 per cent as compared with the preceding year.

#### **4.6 Weaknesses in the Contract Administration**

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The following observations are made

- (a) Instances were observed that additional expenditure had been incurred due to non-completion of work within the agreed period and several instances so observed are given below.
- (i) Although the agreed period for the completion of the construction of the Faculty of Business Studies and Finance building of the Kuliypitya premises terminated on 27 January 2011, after the completion of the construction, the building had been handed over on 28 November 2013. Any bills had not been produced for the payment activities after that date up to January 2015. The delays in the constructions are subject to computation of price variations and the payments so far made for the price variation had been Rs.10,363,120. The reasons adduced for this matter could not be accepted in audit.
- (ii) Although the construction of the individual hostel building at the Makandura premises should have been completed in the year 2012, it had been completed and handed over in the year 2013. However, any bill had not been presented for that building as well during the year under review and a sum of Rs.2,424,959 had been paid in respect of the price variation for the 7<sup>th</sup> bill produced in the year 2015. While the State

Engineering Corporation had stated by its letter dated 18 September 2012 that the delay in the construction had occurred due to the poor construction work of the contractor, granting approval for the payment of price variations was questionable

- (b) A sum totalling Rs.34,085,902 which continued to exist over a period of one year as the work-in-progress in the account had further remained unchanged. It included the balances older than 02 years.

#### **4.7 Personnel Administration**

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The following observations are made in respect of the approved and actual cadre of the University as at 31 December 2014.

- (a) Although the approved cadre of the University for the year under review stood at 275, the actual cadre stood at 255. Due to the absence of the lecturers with special competencies for certain subjects in some faculties, 69 visiting lecturers had been recruited and a sum of Rs.8,508,195 had been paid as their salaries during the year under review.
- (c) According to the approved cadre, there were 26 vacancies in the posts of minor employees, but it did not affect the smooth functioning of the day to day activities of the University. Nevertheless, 12 labourers had been recruited from a man power institution during the year under review stating various reasons and a sum of Rs.3,644,770 had been paid as their salaries.

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

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#### **5.1 Action Plan**

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The following observations are made.

- (a) In terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Management is responsible for the preparation of an Action Plan including clearly identified activities for the achievement of objectives and targets of an institute within the planned business period (year). Nevertheless, a duly prepared Action Plan for the year under review had not been furnished to audit.
- (b) In the informal Action Plan submitted, a provision of Rs.12,500,000 had been made under the Rehabilitation and Development of buildings, whereas it had been shown as Rs.37,500,000 in the final account of the year under review. Although a sum of Rs.12,500,000 had been allocated for 10 items of work according to the Action Plan, 51 items of work had been carried out without being complied with the Action Plan and a sum of Rs.39,577,470 had been spent for that purpose during the year under review.
- (c) Although it was expected to carry out a number of projects valued at Rs.455,000,000 for the construction of buildings, it was observed that the progress of those projects were not at a satisfactory level by the end of the year under review. With the provisions saved in the previous year for the projects namely Faculty Building of Business Studies and Academic Bachelor Building, a sum of Rs.5,398,871 had been saved as at the end of the

year under review. Further, savings totalling Rs.14,515,623 had been made by 49 per cent from the Makandura Medical Centre, 96 per cent from the Kuliyaipitiya Service Centre, 20 per cent from the arrangement of playground and 93 per cent for the skills of the Department of Sports. A sum of Rs.23,120,397 had been spent exceeding the total provisions of 08 items of work.

## **5.2 Budgetary Control**

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In the preparation of Budget over estimation of 40 items of expenditure had been prepared while the expenditure of 20 items had exceeded the budgeted provision. The entire provision of 2 items of expenditure had not been spent and expenditure for 03 items had been incurred without provisions. As such, it was observed that the budget had not been utilized as an effective instrument of management control by the University.

## **5.3 Unresolved Audit Paragraphs**

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A female lecturer who had submitted one project proposal during the period 2010-2011 had been paid a sum of Rs.99,882 in respect of that project. Although the research report relating to that project should have been submitted at the end of February 2013, it had not been submitted even by 30 June 2015.

## **5.4 Tabling of Annual Reports**

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The Annual Report should be tabled in Parliament within 150 days of closure of the relevant year in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 and Section 14(1) of the Financial Act No. 38 of 1971. Nevertheless, the Annual Report for the year 2012 had not been tabled in Parliament.

## **6. Systems and Controls**

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

- (a) Budget
- (b) Purchase of Library Books and Periodicals
- (c) Constructions Contracts
- (d) Granting Advances
- (e) Conducting External Courses
- (f) Stock Control
- (g) Personnel Administration
- (h) Procurement Process
- (i) Motor Vehicle Control
- (j) Control over External Lectures