

Eastern University of Sri Lanka - 2015

The audit of financial statements of the Eastern University of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, 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) 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 Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000– 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the 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 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 Eastern University of Sri Lanka as at 31 December 2015 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 Compliance with the Sri Lanka Public Sector Accounting Standards

According to the Sri Lanka Public Sector Accounting Standard No.07, land and buildings should be accounted for separately, even when they are acquired together. However, the value of lands and buildings of the University as at 31 December 2015 amounting to Rs.916,154,072 had been shown together without showing the value of the land separately.

2.2.2 Accounting Deficiency

Assets such as furniture, equipment, books and vehicles at the total value of Rs.19,411,037 were lost during the year 1990 due to the war situation prevailed in the Batticaloa District. However, no adjustments had been made in the books of accounts in this regard even up to the end of the year under review and as such the value of fixed assets had been overstated by the same value.

2.2.3 Accounts Receivable

The following observations are made.

- (a) Loan balances aggregating Rs. 9,716,548 had remained outstanding for more than 05 years without being recovered from 307 officers who were retired, vacated the posts and transferred out from the University. Nevertheless, the University had not taken action even up to 31 May 2016 to recover those outstanding loan balances or to take legal action against the officers concerned.
- (b) Advances aggregating Rs. 5,000,378 granted to foreign suppliers were lying in 135 import advance accounts for over 11 years without action being taken to recover those advances.
- (c) Advances aggregating Rs. 18,698,666 paid to various suppliers had remained unrecovered for a period ranging from 05 years to 19 years without taking action to recover them.

2.2.4 Non-compliance with Laws, Rules and Regulations.

Instances of non-compliance with laws, rules and regulations observed in audit are given below.

Reference to Laws, Rules and Regulations

Non-compliance

(a) Establishments Code for the University Grants Commission and Higher Educational Institutions

(i) Section 20.6 of Chapter- X

Particulars of no-pay leave obtained by academic and non academic staffs had not been reported monthly to the Auditor General in Form General: 96. In this regard, the Vice Chancellor informed me that this practice was not in the University system.

(ii) Section 3:1 of Chapter- XXVII

The University had not taken necessary measures to maintain an Attendance Register in order to record the arrival and departure of academic staff. In this regard, the Vice Chancellor informed me that by tradition the academic staffs do not record their attendance.

(b) Financial Regulations 396 of the Government of Democratic Socialist Republic of Sri Lanka

Ten cheques at the total value of Rs.24,502 issued by the University had not been presented for payment for more than 01 year. However, the entire value of the un-presented cheques amounting to Rs.4,579,874 had been shown as current liabilities without taking proper action in terms of provisions in the Financial Regulations.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University during the year under review had resulted in a deficit of Rs. 157,502,871 as compared with the corresponding deficit of Rs. 76,652,728 for the preceding year, thus indicating a further deterioration of Rs. 80,850,143 in the financial results for the year under review. Increase of personal emoluments and expenditure on contractual services by Rs. 174,848,703 and Rs.35,370,733 respectively during the year under review as compared with the previous year had mainly attributed for the deterioration in the financial results.

4. Operating Review

4.1. Performance

(a) Results of Examinations

According to the University Grants Commission Circular No.636 dated 14 July 1995, the results of examinations of the University should be released within 03 months after the conduct of examinations. However, the results of examinations relating to the External Degree courses held during the month of April, July and August 2015 had been released only on 08 June 2016 after considerable delays. Details are given below.

Faculty/ Department	Number of Students sat for the Examination	The month in which the examination was held	Delay up to 31 May 2016
Faculty of Commerce and Management			Months
- 1 st year -2010/2011	160	August 2015	08
- 2 nd year 2010/2011 (repeat)	51		
Faculty of Agriculture			
- 1 st and 2 nd year (repeat)	04	July 2015	09
Department of Nursing			
- 1 st Year, 1 st semester 2010/2011 (repeat)	04	April 2015	09

(b) Enrollment of Students

The number of students enrolled for each faculty during the year under review and in the last three years is given below.

Faculty	Number of Students Enrolled			
	2015	2014	2013	2012
Agriculture	39	118	83	65
Arts and Culture	463	210	276	543
Commerce and Management	154	208	201	180

Science	64	192	214	151
Health Care Sciences	36	89	80	101
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Total	<u>756</u>	<u>817</u>	<u>854</u>	<u>1,040</u>

The following observations are made in this connection.

- (i) Enrollment of students to the Faculty of Agriculture and Faculty of Science during the year under review as compared with the previous year had decreased by 67 per cent whereas; enrollment of students to the Faculty of Arts and Culture during the year under review as compared with the previous year had increased by 120 per cent.
- (ii) Enrolment of students for all faculties during the year under review had decreased by 27 per cent as compared with the year 2012.

(c) Cost per Student

The total numbers of students registered at the University and the cost per student for the year under review and in previous three years period are shown below.

	2015	2014	2013	2012
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Total Cost (Rs.'000)	958,198	586,471	627,796	427,087
Total Number of Students	4,203	3,810	3,158	2,769
Cost per Student (Rs.'000)	228	154	199	154

The cost per student of the University was increased by 48 per cent in the year under review as compared with the preceding year.

4.2 Operating Inefficiencies

The following observations are made.

(a) Library Administration

Twenty seven library books borrowed by 07 academic staff had been retained for period ranging from 01 year to 05 years without returning them within the stipulated period. However, the Universities had not taken action to get those books or to impose a fine of Rs. 43,183 for delays.

(b) Settlement of Research Advances

Research grant advances amounting to Rs. 82,850 paid to 02 lecturers in 2014 to carry out research works had not been settled even up to 30 June 2016. However, the University had not taken any action in this regard.

(c) Granting Leave for Studies

A senior lecturer, Grade -I attached to the Faculty of Arts and Culture had been granted study leave with pay from 01 October 2010 to 31 March 2011 to pursue PhD program at the above mentioned Faculty. In this regard, the following matters were observed.

- (i) According to the Bond Agreement entered with the University on 01 October 2010, the lecturer should compulsorily serve the University for 05 years after completing her study leave. However, she had retired from the service on 29 January 2015 after having completed her PhD programme effective from 11 February 2014. In this regard, the University had not taken action to recover the bond value of Rs.2,534,659 from the surety.
- (ii) The Leaves and Awards Committee had approved the full pay study leave to the lecturer to pursue PhD programme without considering period remaining to serve the University up to the date of her retirement.
- (iii) According to the Higher Education Circular No 01/2011 dated 20 April 2011 and Management Services Circular No.02/2014 dated 11 February 2014, the academic staff should submit a research proposal with the approval of the Research Committee to obtain research allowances. However, the above mentioned lecturer had obtained research allowances aggregating Rs.923,708 during the five years period from 2011 to 2015 for a thesis submitted for her PhD programme without submitting a fresh proposal for the research activities.

(c) Violation of Bond

Even though a senior lecturer attached to the Department of Social Sciences had obtained a grant of Rs.368,500 from the National Centre for Advanced Studies (NCAS) on 05 March 2012 to read PhD program at the University of Madras, India, he had not completed the PhD even up to 30 June 2016. However, the University had not taken action to recover the bond value of Rs. 368,500 as per agreement.

4.3 Management Weaknesses

The following observations are made.

- (a) According to the meeting of the Audit Committee held on 24 June 2014, it was recommended to recover the loss of Rs.4,233,370 sustained on the procurement of 155 computers and 06 UPS from 03 officers of the University who are responsible for this loss. However, the above loss had not been recovered even up to 31 May 2016.
- (b) Seventy three lecturers of the University who went abroad on scholarships had not reported for duty after completion of the scholarships. However, the University had not taken action up to 30 June 2016 to recover sums aggregating Rs. 156,535,552 from those lecturers or from their guarantors for breach of agreements even though

the above balances had remained outstanding for a period ranging from 05 to 20 years. In this connection, the Vice Chancellor had informed me that, 12 cases had been handed over to the Attorney General's Department to take legal action and to recover the dues from the defaulters.

- (c) According to the Board of Survey Report of the Trincomalee Campus for the year 2014, it was observed that 167 inventory items to the value of Rs.1.19 million kept at Guest House, Dockyard Road Hostel, Canteen and Maintenance Unit of the Campus were reported missing. However, the University had not taken action to find the causes of losses and to fix the responsibility for such losses in terms of Financial Regulations 104.

4.4 Contract Administration

Construction of Playground at Trincomalee Campus

A contract had been awarded to a contractor at a cost of Rs.32,447,463 on 19 April 2014 to construct a Playground and the contractor had abandoned the construction works after getting payments totalling Rs. 24,765,167. However, the University had not taken action to en-cash the performance bond within the validity period and black list the contractor.

4.5 Human Resources Management

There were 19 vacancies in the post of professors and 65 vacancies in the post of senior lecturers and lecturers and this had badly affected to the educational activities of the students. However, the University had not taken proper action to fill these vacancies even up to 31 July 2016.

4.6 Assets Management

The following observations are made in this regard.

- (a) Although the medical equipment called "eight accessories of the tissue processor" had been procured at a cost of Rs. 2.875 million during the year 2012, it had remained idle at the Faculty of Health Care Sciences from the date of purchase due to failure to purchase the main part of tissue processor.
- (b) Even though medical equipment called "mortuary cooling chamber" valued at Rs.2,994,370 had been purchased by the University on 04 July 2012 and handed over to the Anatomy Laboratory of the Department of Human Biology, the University had not supplied 10KV UPS to operate the above equipment. As a result, it had remained idle up to 07 April 2016.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of Public Enterprises Circular No. PED/02 of 02 June 2003, the financial statements for the year under review should have been rendered for audit within 60 days after the close of financial year. However, the financial statements of the University for the year under review had been rendered for audit only on 04 April 2016.

5.2 Corporate Plan

A review of operating results for the preceding three years had not been included in the Corporate Plan prepared in terms of 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) In terms of paragraph 04 of the Public Finance Circular No. 01/2014 of 17 February 2014, Action Plan prepared by the University for the year under review had not included the updated Organizational Structure of the University, approved and actual Cadre at present and the Internal Audit Plan.
- (b) The University had not prepared performance reports in order to measure the physical progress indicated in the Action Plan for the year under review.
- (c) The University had not incorporated the Faculty of Arts and Culture in its Action Plan for the year under review.

5.4 Procurement Plan

A Master Procurement Plan including activities expected to be fulfilled at least within a period of three years in terms of Section 4.2.1. (a) and 4.2.3 of the Procurement Guidelines had not been prepared. Instead, a Master Procurement Plan had been prepared for a period of one year.

5.5 Unanswered Audit Queries

Out of 24 audit queries issued in the month of June 2015, replies for 03 audit queries had not been received even up to 30 June 2016.

6. Systems and Controls

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

- (a) Control over Fixed Assets : Presentation of fair value of the fully depreciated assets.
- (b) Contract Administration : Recovery of liquidated damages, approval for extensions, and comply with the conditions of the contract agreement.