

## **Institute of Technology University of Moratuwa - 2015**

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The audit of financial statements of the Institute of Technology University of Moratuwa 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 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 20 of the Institute of Technology University of Moratuwa Ordinance No.03 of 2000 enacted in terms of Section 18 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the annual report of the Institute of Technology in terms of 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 the 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 judgement, 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 Institute'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 Institute'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. Section 111 of the Universities Act, No. 16 of 1978 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 Institute of Technology University of Moratuwa 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**

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#### **2.2.1 Accounting Deficiencies**

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Even though assets costing Rs.47,450,180 were fully depreciated due to the errors occurred in identifying the useful life for non- current assets in terms of Sri Lanka Public Sector Accounting Standard 03, they had been further utilized. As such, action had not been taken to rectify the estimated errors.

#### **2.2.2 Accounting Policies**

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The amortization policy relating to the depreciation of assets purchased under Government Grants had not been disclosed by the accounts and the net value amounting to Rs.7,250,000 received from the Treasury in the years 2011 and 2012 had been decreased up to a sum of Rs.1,901,167 by the end of the year under review.

#### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) There was a difference amounting to Rs.891,200 in comparing the balance of the Work- in- Progress Account in the statement of financial position with the Schedule as at 31 December of the year under review.
- (b) Even though the value of long- term investments was a sum of Rs.14,335,190 in terms of the statement of financial position in the year under review, there had been a difference amounting to Rs.170,787 due to stating the value as a sum of Rs.14,164,403 in the presented detailed notes.

### **2.3 Accounts Receivable**

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Even though the agreement had been made for the recovery of the sum of Rs.3,481,830 from the Provident Fund recoverable from an officer who had breached the agreement, that money had not been recovered even by 31 December 2015.

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

The following instances of non- compliances were observed.

### Reference to Laws, Rules, Regulations and Management Decisions

### Non- compliance

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

Section 3.1 of Chapter XX

Emoluments amounting to Rs.64,883,895 had been paid for the year under review without establishing the attendance of the academic staff.

#### (b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Sub- section 4.2.5 of Chapter XXIV

The balance of Rs.38,080 recoverable from an officer who resigned from service in May 2012 had not been recovered up to 31 December of the year under review.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operations of the Institute for the end of the year had resulted in a deficit of Rs.3,754,212 as compared with the corresponding deficit of Rs.682,036 for the preceding year, thus indicating an increase of Rs.3,072,176 in the deficit in the year under review as compared with the preceding year. Even though the Government grants received for recurrent expenditure in the year under review had increased by a sum of Rs.14,420,000, the increase of personnel emoluments by a sum of Rs.19,313,843 had been the main reason for this increase of the deficit.

In considering financial results of 05 preceding years, the financial result in the years 2012, 2014 and in the year under review indicated a deficit. After making adjustments for depreciation on non- current assets in personnel emoluments and government taxes, the contributions had indicated an improvement and it had been a sum of Rs.11,152,226 by the end of the year under review.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made.

Basic functions such as providing, improving and developing higher education in the academic fields determined in terms of the Universities Act No.16 of 1978 are covered by a University. The Institute of Technology consisted of four faculties and the number of registered students by the end of the year under review was 1220.

- (a) According to the final year examination results held in the year under review, the number of students appeared for the examination were 430 and 296 out of them or 69 per cent had passed the examination and 134 students or 31 per cent had failed the examination.
- (b) Even though it was expected that 85 per cent of students in each faculty would pass the First Year Examination in terms of the Action Plan of the year under review, desired targets had not been achieved as the passing percentage had ranged from 62 per cent to 74 per cent.

##### **4.2 Underutilization of Funds**

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A sum of Rs.693,002, the value of two funds namely Research and Development and Technical Institutional Development had been underutilized from around 10 years without utilizing for any purpose.

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

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##### **5.1 Internal Audit**

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The following observations are made.

- (a) The audit functions of the Institute of Technology University of Moratuwa are carried out by one clerk attached by the Institute of Technology under the supervision of the Senior Assistant Internal Auditor of the University of Moratuwa. It had caused in reducing the efficiency and the effectiveness of the Internal Audit Unit.
- (b) Functions such as determining the progress of development projects, considering problematic areas relating to projects, conducting site inspections had not been covered by the Internal Audit Unit.

##### **5.2 Procurement Plan**

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Action had not been taken to purchase 18 items of equipment amounting to Rs.4,000,000 and a stock of books valued at Rs.500,000 included in the Procurement Plan for the year under review.

## 6. Systems and Controls

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The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of Institute from time to time. Special attention is needed in respect of the following areas of control.

<u>Areas of Systems and Controls</u>	<u>Observations</u>
(a) Assets Management	Not disclosing assets at its fair values in the accounts.
(b) Personnel Administration	Not taking expeditious action against officers who breached agreements and not taking action according to existing rules and regulations. Not taking action to recover loans expeditiously by regularizing the recovery of loans.