

South Eastern University of Sri Lanka - 2015

The audit of financial statements of the South 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 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 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 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 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 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 South 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 the Sri Lanka Public Sector Accounting Standards.

2.2. Comments on Financial Statements

2.2.1 Compliance with the Sri Lanka Public Sector Accounting Standard

According to the Sri Lanka Public Sector Accounting Standards No.07, land and buildings should be accounted for separately, even when they are acquired together. However, the land and building of the Academic Programme Centre of the University at Mount Lavinia valued at Rs. 6,648,453 purchased in 1996 had been continuously shown under buildings account without showing the value of the land separately.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The Centre for External Degrees and Professional Learning Unit, Postgraduate Unit and MBA Programme Unit of the University had earned net income of Rs.18,416,145 during the year under review by conducting external degree and master degree programme. However, transactions of those Units had not been incorporated with the accounts of the University.
- (b) A total sum of Rs. 1,110,683 receivable as at the end of the year under review from two academic staff on account of bond violation had not been brought to the accounts.
- (c) The building of Academic Programme Centre valued at Rs. 6,648,453 had been demolished in the year 2014 in order to construct a new building. However, the value of the building and accumulated depreciation thereon had not been written-off from the books of accounts.

2.2.3 Non - compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules and Regulations

Non - compliance

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

Section 20.6 of Chapter-X

Thirteen non-academic staff had obtained 332 days no-pay leave ranging from 04 days to 113 days during the year under review. However, particulars of those no-pay leaves had not been reported monthly to the Auditor General in Form 96.

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

- (i) Financial Regulations
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Seven vehicles belonging to the University had met with accident and repair cost thereon totalling Rs.199,075 had been paid during the year under review. However, action had not been taken to ascertain the extent and cause of losses and to fix responsibilities.

- (ii) Financial Regulation 396

Hundred and four cheques to the total value of Rs. 484,473 issued by the University had not been presented for payment for periods ranging from 02 to 09 years. However, the entire value of those un-presented cheques had been shown as liabilities without taking proper action in terms of provisions in the Financial Regulation.

- (iii) Financial Regulation 571

Sixty two refundable deposits aggregating Rs.1,539,815 had existed for periods ranging from 2 to 12 years. However, necessary action in this regard had not been taken even up to the end of the year under review.

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 net deficit of Rs. 170,608,906 as compared with the corresponding net deficit of Rs. 101,928,821 for the preceding year, thus showing a deterioration of Rs. 68,680,085 in the financial results. The increase of personal emoluments by Rs. 176,272,418 had mainly attributed for this deterioration.

4. Operating Review.

4.1 Performance.

The academic performances of the University during the year under review are as follows.

(a) Degree Courses

The number of students enrolled for each faculty during the last three years is shown below.

Faculties	Number of Students Enrolled		
	2015	2014	2013
Applied Science	329	244	243
Arts and Culture	239	246	418
Management and Commerce	370	396	376
Islamic and Arabic Language	362	340	231
Engineering	101	114	102
Total	1,401	1,340	1,370

The following observation is made in this connection.

Enrolment of students to the Faculty of Applied Science and Faculty of Islamic and Arabic Language during the year under review as compared with the year 2013 had increased by 35 per cent and 57 per cent respectively whereas, enrolment of students to the Faculty of Arts and Culture during the year under review as compared with the year 2013 had decreased by 43 per cent

(b) 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
Total Cost (Rs.'000)	397,507	300,144	236,707	153,310
Total Number of Students	3,684	3,227	2,845	2,034
Cost per Student (Rs.'000)	108	93	83	75

The cost per student of the University was increased by 13 per cent in each year during the period from 2012 to 2015.

(c) Payment of Research Allowances

The following observations are made.

- (i) According to the Higher Education Circular No 01/2011 dated 20 April 2011 and Management Service Circular No.02/2014 dated 11 February 2014, the academic staff who are not submitted their research proposal with the approval of the Research Committee are not entitled to obtain research allowances. However, three academic staff who had not obtained approval from the Research Committee had obtained research allowances totalling Rs.501,002 during the year under review.
- (ii) The research works relating to 07 research proposals submitted by senior lecturers and lecturers in the year 2014 and approved by the Research Committee should have been completed at the end of the year 2014. However, those research works had not been completed even up to 13 May 2016. In this regard, the University had paid a total sum of Rs. 190,000 for those lecturers.
- (iii) Research grant advance amounting to Rs. 22,500 paid to a lecturer in 2011 to carryout research works had not been settled even up to 13 June 2016 even though the Research and Publication Committee had accepted the request sent by the lecturer for settlement of advance in the year 2013.

(d) Granting Leave for Studies

 The University had granted study leave for 39 months with pay and 298 days without pay for a Senior Lecturer during the period from 2006 to 2010 and paid financial assistance of Rs. 2,179,410 under the National Centre for Advanced Studies (NCAS) Project grant to read a Ph.D. programme at Kebangsan University, Malaysia. However, the lecturer had not completed his Ph.D. programme even after a lapse of 05 years.

(e) Performance of Visiting Lecturers

 The University had appointed 42 visiting lecturers to conduct lectures at the Faculty of Engineering during the year under review and requested to complete the syllabuses within the time period allocated for each subject. However, out of the lecture hours allocated for each subject, lecture hours ranging from 10 hours to 22 hours had not been completed by those lecturers and as such it is questionable about the completion of the entire syllabus by those visiting lecturers. Details are given below.

Subject	Total Hours Allocated	Total Hours Completed	Lecture Hours Not Completed
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Fluid Mechanics	38	28	10
Mechanics of Materials	38	28	10
Manufacturing Engineering	30	18	12
Data Structure	30	12	18
Highway Traffic and Engineering	37	26	11
Electrical and Telecommunication	30	08	22

4.2 Operating Inefficiencies

The following observations are made.

(a) Purchase of White Boards

The University had purchased 09 white boards to the value of Rs. 132,480 at the rate of Rs. 14,720 per board during the years 2014 and 2015. The following observations are made in this regard.

- (i) Purchase had been made without following the procurement procedure in terms of Section 2.14.1 of the Procurement Guidelines - 2006. In this regard, the Vice Chancellor informed me that the white boards were urgently needed to supply before the opening ceremony of a new Faculty Building.
- (ii) According to the quotation obtained for audit purpose from the same supplier who had supplied the same white boards to the University had agreed to supply the particular type of white board at the rate of Rs.5,120. Accordingly, a sum of Rs. 86,400 had been overpaid to the supplier.
- (iii) Even though, this matter was reported to the University, any action had not been taken against the officer who is responsible for this transaction of fraudulent nature in terms of Financial Regulation 128 (1) (o).

(b) Establishment of Language Laboratory

A language laboratory established at the Faculty of Arts and Culture by spending a total sum of Rs. 8.1 million had not been utilized for the intended purposes for more than six years. It was further observed that, the equipment such as Multimedia PCs and Booths for Students valued at Rs. 4.1 million purchased in 2007 and 2009 were obsolete at present. As a result, the entire amount spent to establish this laboratory had become a fruitless expenditure.

(c) Establishment of Computer Laboratory

A computer laboratory established at the Centre for External Degree and Professional Learning in 2013 by spending Rs. 2.82 million had not been utilized for the intended purposes even up to 13 June 2016.

(d) Purchase of Finger Print Machine

The University had purchased and fixed 10 fingerprint machines on 10 December 2014 at a total cost of Rs. 616,000 on the request made by the Dean of the Faculty of Islamic Studies and Arabic Languages in order to mark the attendance of the students and lecturers. However, those machines had not been used for the intended purposes even up to 15 June 2016.

4.3 Management Weaknesses

The following observations are made.

- (a) Loan balances aggregating Rs. 665,570 of 02 academic staff and 03 non-academic staff who had vacated their posts had remained outstanding for a period ranging from 04 to 16 years. However, the University was unable to take any action to recover these outstanding balances as the above loans had been granted without obtaining any valid sureties.
- (b) Leave availed by the academic staff had not been recorded in the Leave Register in terms of Section 23 of Chapter-X of the Establishments Code for the University Grants Commission and Higher Educational Institutions.
- (c) The University had computed Value Added Tax amounting to Rs. 1,398,693 at the rate of 12 per cent on the contract payments of Rs. 8,054,468 made to the contactors during the year under review instead of computing at the rate 11 per cent. As a result, a sum of Rs. 116,557 had been overpaid to the contractors. However, the amount overpaid to the contractors had not been recovered even up to 13 June 2016.

(d) Payment of Advance

The University had granted advances aggregating Rs. 1,243,600 to its staff in 25 instances during the year under review. The following observations are made in this regard.

- (i) Even though the advances granted should be settled immediately after the completion of the purpose for which they were granted, the above mentioned advances had been settled after a delay of periods ranging from 07 days to 84 days.
- (ii) Whatever amount requested by the staff as advance had been granted by the University without ascertaining the nature and reasonableness of the amount requested. As a result, the advances aggregating Rs. 157,000 paid in 05 instances had been settled fully by cash and 50 per cent of the advances aggregating Rs. 1,086,000 paid in 20 instances had been settled by cash. This was lead to misappropriate the public funds.

(e) Renovation of Examination Hall

A hall which was originally constructed to use as library building had been renovated as examination hall in the year 2007 and again it had been renovated in the years 2014 and 2015 by spending Rs. 15 million in order to use it for the purposes of conducting convocation and examinations. The following observations are made in this regard.

- (i) Even though a considerable amount of public money had to be spent for this renovation works, a proper feasibility study had not been carried out before commencement of the renovation works.
 - (ii) The examination hall situated very close to the river and as such there is a possibility of inundating this area during the rainy season. It was further reported that this place was flooded at the height of 3 feet in the years 2011 and 2014. However, this matter had not been considered before commencing the renovation works.
 - (iii) Even though the hall had been renovated to use for the purposes of conducting convocation and examinations, it could not be used for both purposes due to lack of ventilation.
 - (iv) This hall had remained idle even up to 15 June 2016 as it could not be used for the intended purposes. Therefore, a sum of Rs. 15 million spent for the renovation works had become a fruitless expenditure.
- (f) A sum of Rs. 1.70 million had to be recovered in the year 2015 from a lecturer as the bond value for breaching his agreement. However, the University had taken action to recover this amount only in the year 2013 after a delay of 09 years. Therefore, the particular lecturer had filed a case in the Supreme Court against the recovery of bond value and the Court had given a judgment to return whatever amount recovered from the lecturer as the University had delayed for more than six years after his return to Sri Lanka to take action for recoveries. Even though the University had sustained a loss of Rs. 1.73 million due to the negligence of the officer responsible for delaying to issue a letter to the respective lecturer, any action had not been taken against the officer up to 13 June 2016.
- (g) The Board of Survey conducted in the year 2013 revealed a shortage of 2,477 items of fixed assets at the total cost of Rs. 37 million. However, the cost of those items of fixed assets had been written off from the books of accounts without taking action to conduct inquiries to ascertain the causes of shortage and to fix the responsibility. The University had not taken any action in this regard even up to 13 June 2016 even though this matter was pointed out in my report for the year 2014.
- (h) Irregular Appointment to the Post of Senior Lecturers

According to the Circular No. 721 dated 21 November 1997 issued by the University Grants Commission, the recruitment for the post of Senior Lecturers should be made through open advertisement. However, nine officers performed duties as temporary assistant lecturers had been promoted as senior lecturers.
- (i) Purchase of Mattresses for Students Hostel

Matters observed relating to quality and price of 800 mattresses purchased by the University at a total cost of Rs. 3.14 million in the year 2014 were pointed in my report for the year 2014. Accordingly, a test report had been obtained from the Industrial

Technology Institute on 25 September 2015 to prove the quality of those mattresses and according to this report it was confirmed that the quality of the mattresses did not satisfy with the standard requirements. However, the University had not taken action against the officer who is responsible for this irregular procurement. In this regard the Vice Chancellor had informed me that this matter was reported to the supplier to replace the damaged mattress or do the correction as soon as possible and awaiting the response to take the next steps to recover the losses incurred.

4.4 Transactions of Contentious Natures

The following observations are made.

(a) Printing of Management Diaries

The University had printed 2,000 management diaries by spending Rs. 1.9 million during the year under review without identifying the actual requirement even though every year 800 diaries were printed up to the year 2014. As a result, the University had to be issued 1,232 diaries valued at Rs.1.2 million for persons who had no direct influence over the University whereas 47 diaries valued at Rs.44,650 had remained idle at the stores up to 15 June 2016.

(b) Preparation of Master Plan

The University had paid a consultancy fee amounting to Rs. 16.8 million to a UK based Engineering Consultancy Organization to prepare a Master Plan for the development of the University in the year 2007. Subsequently, the University had assigned another consultancy firm to prepare a new Master Plan and paid a sum of Rs. 7.2 million in the year 2010 as the earlier Master Plan had been rejected by the Donor Agency due to lack of required information. As a result, a sum of Rs. 16.8 million paid to UK based firm had become a fruitless expenditure.

4.5 Contract Administration

4.5.1 Construction of Student Hostel and Staff Quarters at the Faculty of Applied Sciences

The University had awarded a contract to construct Student Hostel and Staff Quarters on 01 November 2011 at the contract value of Rs. 92.51 million. The following observations are made in this regard.

- (a) Even though the construction works should have been completed on or before 17 December 2012 as per contract agreement, only 80 per cent of the works had been completed up to 15 June 2016. However, the University had paid an additional amount of Rs. 7.09 million to the contractor as price escalation.
- (b) According to the contract agreement, the liquidated damages should be recovered at the rate of 0.05 per cent of the initial contract price per day, subjected to maximum of 10 per cent of initial contract price. However, the University had not taken action to

recover the liquidated damage amounting to Rs. 9.25 million from the contractor even though a sum of Rs.1.21 million had been paid as penalty for delayed payments to the contractor.

- (c) Construction of hostel buildings had delayed for more than three years due to very poor performance of the contractor. As a result, the University had to be paid a sum of Rs.8.69 million as rentals for the buildings rented out for providing accommodation to the University students during the years 2013 to 2015.

4.6 Human Resources Management

The following observations are made.

- (a) The post of Bursar had remained vacant from 15 December 2013. However, the University had not taken action up to now to appoint a qualified officer to the post of Bursar.
- (b) The posts of Professors and Associate Professors had remained vacant for several years. Even though this situation had badly affected the educational activities of the students, the University had not taken proper action in this regard.

5. Accountability and Good Governance

5.1 Action Plan

The University had not prepared an Action Plan for the year under review.

5.2 Procurement Plan

The University had not prepared a Procurement Plan for the year 2015 in terms of National Budget Circular No.128 of 24 March 2006.

5.3 Conduct of Annual Boards of Survey

According to the Establishments Circular Letter No. 04/2013 dated 10 April 2013 issued by the University Grants Commission, the Annual Boards of Survey for the year under review should be conducted and the report thereon should have been furnished to the Auditor General on or before 17 March 2016. However, the Boards of Survey for the year 2015 had not been conducted even up to 13 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 the extension, compliance of condition of contract of the contract agreement.