

University Grants Commission - 2015

The audit of Financial statements of the University Grants Commission 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-sections 12(4) and (8) 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 Grants Commission in terms of Section 12(5) of the Universities Act appear in this report.

1.2 Management's Responsibility 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 the 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 Commission'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 Commission'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. Section 111 of the Universities Act, No. 16 of 1978 gives 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 Grants Commission 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 Non-disclosure of transactions with related parties

Internet facilities to the University Grants Commission and the Higher Educational Institutes had been obtained through a limited Company incorporated under the Companies Act, No. 07 of 2007 and Vice Chairman of the University Grants Commission and the University lecturers had performed as the Chairman and the members of the Board of Directors of this Company respectively. However, the transactions of these related parties had not been disclosed in the financial statements.

2.2.2 Sri Lanka Public Sector Accounting Standards

Improvements and additions amounting to Rs.7,251,524 made to non-current Assets in capital nature had been brought to account as revenue expenditure and the depreciation thereon had also not been brought to account contrary to Sri Lanka Public Sector Accounting Standard 07.

2.2.3. Accounting Deficiencies

Expenses totalling Rs.1,304,400 incurred in the year under review related to the Universities Provident Fund had been brought to account as expenses of the University Grants Commission

2.2.4 Unexplained Differences

As compared with the balance of buildings of the Commission with the register of Fixed Assets, a difference of Rs.20,808,180 was observed.

2.3 Accounts Receivable and Payable

Even though the expenses amounting to Rs.893,271 incurred for line Ministry in the year 2011 had lapsed for more than 4 years, action had not been taken to recover it and it was further stated as advances.

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

The following instances of non-compliance were observed in audit.

**Reference to Laws, Rules,
Regulations etc.**

Non-compliance

-
-
- (a) Section 27.7 of Chapter 10 of the Establishments Code of Universities and Sections 08 and 09(f) of the Agreement entered into between the Undergraduate of the University. Even though half yearly reports and expenditure reports on the progress acquired as a Post graduate should duly be presented to the relevant Institute which granted the offer, 13 Lecturers had not presented relevant reports. However, it was observed in audit that the recipient who had not presented the progress reports had also been granted the next installment of Rs.61,000.
- (b) Paragraph 8.9.1 of the Government Procurement Guidelines 2006. When the selection of suppliers were made for the National Electronic Library Service established in the year 2014, neither competitive quotations had been called nor had an agreement been entered into with the selected suppliers.
- (c) Public Administration Circular No.30/93 dated 16 December 1993. The Scheme of recruitment had been changed and 192 officers for 05 posts had been recruited by the Commission during the period from 2010 -2015 on the basis of the Circular No.876 dated 06 June 2006 of the University Grants Commission without the approval of the Ministry of Public Administration and without publicizing a newspaper advertisement.
- (d) Paragraph 4 of the Public Finance Circular No.01/2014 of 17 February 2014. The Action Plan for the year under review had not been prepared in terms of the Circular.
- (e) Letter No. BD/HRD/171/1/2014 dated 02 June 2014 of the Secretary to the Treasury. Even though instructions regarding the purchase of vehicles by utilizing the revenue earned by the Universities in terms of the letter referred to should be obtained from the Ministry of Higher Education, revenue earned from interest of fixed deposits and sale of Admission handbooks considered as this revenue had earned by the Commission and purchased a motor vehicle valued at Rs.25,138,774.

3. Financial Review

3.1 Financial Results

According to the Financial Statements presented, the operating result of the Commission for the year ended 31 December 2015 had been a surplus of Rs.43,081,432 as compared with the corresponding surplus of Rs.43,733,945 for the preceding year, thus indicating a deterioration of Rs.652,513 in the financial result for the year under review. Even though the income had increased by Rs.250,065,991, increase of the expenditure by Rs.250,718,503 had mainly attributed to the above deterioration.

3.2 Contribution

In analyzing the financial results for the preceding years, even though there was a deficit in the year 2011 a significant improvement was indicated from the year 2012 to 2014. In taking into consideration the depreciations for non-current Assets and employees' remunerations, it was observed a continuous increase in the contribution of the Commission from the year 2011 to 2015. Increase of Government grants provided for recurrent expenditure had attributed to this improvement. The increase of contribution in the year 2015 was 20 per cent as compared with the year 2014.

3.3 Legal cases instituted against the Commission

Forty Six legal cases were pending against the University Grants Commission as at the end of the year under review in Courts and other Institutes. Twenty two out of them had been initiated in the year 2015.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The prime objectives of the University Grants Commission are planning and coordination of University education complying with the National Policy, allocation of provisions for University education, formalization of administration and control of expenses, maintenance of the academic standards of Higher Educational Institutes and regularization of admission of students. The following observations are made in respect of the aforesaid objectives.
 - (i) Even though it was expected to increase the annual registrations for University admission by 5 per cent according to the Action Plan, such an improvement had not been observed in the number of students selected to universities in the academic years 2012/2013, 2013/2014 and 2014/2015.
 - (ii) New degree courses had been introduced for the Academic years from 2012/2013 to 2014/2015 as to meet the labour market. However, it was observed a steady decrease in number of students registered for the courses so introduced.

(iii) Even though the Study programmes of the Universities had been planned to commence in October in each year, the Commission had taken action in respect of the admission of students to universities for each academic year during the period from October to December.

(b) According to the test check carried out in respect of the recurrent expenditure incurred and the number of students admitted to universities for preceding 4 years, the number of students enrolled from the academic year 2013/2014 to 2014/2015 had increased by 2 per cent and the cost per student had increased by Rs.64,251. Even though academic activities had been carried out by enrolling a high percentage such as 20 per cent of the students qualified during the academic year 2011/2012, that rate had been maintained at lower level such as 17 per cent in the succeeding years. The details appear below.

<u>Details</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
No. of students qualified for Universities	141,411	144,816	143,740	149,572
No. of students proposed to admit Universities	22,110	23,125	24,540	25,395
No. of students selected to admit universities	28,937	24,198	25,200	25,676
No. of selected students as a percentage of the No. of students qualified.	20	16	17	17
<u>Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Recurrent expenditure incurred (Rs.000)	14,611,003	16,932,456	20,637,741	25,760,736
Total No. of students	73,295	80,324	83,725	82,900
Average Recurrent expenditure per student (Rs.)	199,345	210,802	246,494	310,745

(c) Even though it had planned to fulfill 12 strategies in connection with 05 objectives included in the Action Plan for the year 2014, it had subsequently informed to take action to achieve it in the following year. However, such objectives had not been fulfilled even in the year 2015, and it had planned to fulfill further in the year 2016. Accordingly, such situation had arisen due to non-formulation of plans without identifying the difficulties in performing these functions.

4.2 Management activities

The following observations are made.

- (a) Two Research Funds amounting to Rs.11,984,024 brought forward for a long period as at 31 December in the year under review had not been used to achieve the objectives of the Fund and it had been referred for the approval of the General Treasury to implement a strategy in respect of the utilization of these funds.
- (b) Even though 78 donees had been granted a sum of Rs.33,694,244 for Post graduate Degrees from the year 2009 to 2012, only 16 donees had completed their Postgraduate Degrees as at 31 December 2015. Only 09 out of them had presented their Degree Certificates to the University Grants Commission.
- (c) Even though the Ministry of Health had granted a sum of Rs.8,556,019 to the Commission in the years 2014 and 2015 for training purposes of the Registered Medical Officers, only a sum of Rs.2,383,104 had been spent within two years. A sum of Rs.6,172,915 representing 72 per cent had been shown in the financial statements as Current liabilities as at 31 December 2015 without utilizing for the relevant purposes.
- (d) The General Treasury had granted a sum of Rs.189 million on behalf of the Universities for expansion of Knowledge Enhancement & Institutional Development in the year under review and a sum of Rs.161.5 million had been given to the Universities. The balance amounting to Rs.27.5 million had been retained in the Commission without spending.

4.3 Transactions of contentious nature

The following observations are made.

- (a) The entertainment expenses had been reimbursed to the officers of the Commission and Higher Educational Institutes including Universities at various percentages based on the salary in terms of the Internal Circular No.2014/6(2) issued on a decision of the University Grants Commission without the concurrence of the Treasury in the year under review.
- (b) Even though the money recovered from breach of agreements should have been credited to the Universities Fund in terms of Sections 10(2) and 99(1) of the Universities Act, contrary to that, a Bond violation/ Breach Fund of the Lecturers who violated the Agreements had been maintained in terms of the University Grants Commission Circular No.737 dated 18 August 1998 without an approval of the Treasury and the revenue received from investment of such money had been used for sundry expenses of the Universities. According to a sample check, Funds existed in 6 Universities, including the University Grants Commission totalled Rs.264,825,557.
- (c) According to the sample check, the balance which should have been recovered from the officers who had breached the bonds in 07 universities amounted to Rs.385,931,482 as at the end of the year under review. Necessary action to recover this money had not been taken in terms of Sections 7:6, 7:7 and 7:8 of Chapter 5 of the University Establishments Code.

4.4 Idle and Underutilized Assets

In considering the usage of Electronic Libraries introduced by the University Grants Commission, its usage had been at a lower level in the years 2014 and 2015. Even though sums of Rs.90,038,871 and Rs.99,927,501 had been spent for the maintenance of this system in the years 2014 and 2015 respectively, decrease of the usage of library in 06 Universities had remained in the range between 16 per cent to 62 per cent in comparing it with the preceding year.

4.5 Procurement and Contract process

The following observations are made.

The Cabinet of Ministers had approved the estimate of Rs.74.6 million in the year 2010 for the construction of four storied building of the University Grants Commission. Recommendations of the Technical Evaluation Committee had been given in the year 2015 for this construction work and the value of the approved estimate had exceeded in calculating the price variances due to 05 year delay. Five estimated items amounting to Rs.13.6 million had been removed to award the tender within the estimated value approved by the Cabinet of Ministers and awarded the bid.

Even though the work had to be completed as at 31 December 2015 in terms of the procurement plan for the year under review, only 5 per cent of the physical progress had been achieved by showing 20 per cent of the financial progress as at that date.

4.6 Personnel Administration

Eighty eight officers in 28 posts including 8 key posts such as the Chief Accountant and Chief Internal Auditor of the University Grants Commission had fallen vacant and it was observed in audit that it could adversely affect the financial activities, operations of internal control and decision making of the Commission.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging from 25 per cent to 91 per cent were observed in audit between budgeted and actual expenses thus indicating that the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

Fields of systems and controls

Observations

	-----	-----
(a)	Accounting	Serialized Journal vouchers had not been prepared for journal entries and non-inclusion of necessary supporting documents therefor.
(b)	Advance control	Resettlement of Monies ranging from 50 to 89 per cent without spending for the relevant purpose, as the required amount for the purpose had not been properly estimated in granting imprests.
(c)	Control of purchases	Non-compliance with the conditions to be followed in evaluation of bids for printing admission handbooks.