

University of Moratuwa - 2015

The audit of financial statements of the 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 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 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 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 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

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 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

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard- 01

- (i) The criteria such as expectation to be settled in the entity's operating cycle, holding primarily for the purpose of being traded and settling within 12 months after the reporting date, should be based for the classification of liabilities as current liabilities. Nevertheless, 11 items valued at Rs.26,811,444 had been identified as current liabilities deviating from the above criteria at the sample test carried out on other liabilities amounting to Rs.37,251,802 shown under current liabilities in the statement of financial position.

- (ii) Even though income and expenditure shall not be offset unless required or permitted by an Accounting Standard, the expenditure had been offset against the income received to the University from convocation fees and aptitude tests fees. This income had been shown as deferred income in the Statement of Financial Position instead of being shown in the Income Statement

(b) Sri Lanka Public Sector Accounting Standard-02

Only net changes in various funds had been included in the Cash Flow Statement without identifying receipts to the various funds during the year under review and expenditure incurred thereon as cash receipts and payments separately.

(c) Sri Lanka Public Sector Accounting Standard-03

The assets costing Rs.1,971,794,094 had been fully depreciated as the useful life of non-current assets had not been reviewed annually. However, they had still been in use. Accordingly, action had not been taken to revise the estimated error.

2.2.2 Accounting Policies

The money spent exceeding the grants provided by the General Treasury for recurrent expenditure had been shown as a receivable amount without ensuring that the said money is reimbursed by the Treasury again. The accumulated balance shown as debtors without being so reimbursed annually amounted to Rs.66,947,710 as at the end of the year under review.

2.2.3 Lack of Evidence for Audit

The schedule in respect of the other capital receipts amounting to Rs.1,737,326 shown in the Cash Flow Statement in the year under review, was not made available to audit.

2.2.4 Non-disclosure of Transactions made with related Parties

Management fees amounting to Rs.2,943,373 from the income of the Bachelor of Information Technology (External) Course had been paid without any agreement to the private company named as Uni Consultancy Services, registered under the Companies Act, No.07 of 2007 and established in the premises of the University without an approval of the Cabinet of Ministers. The Board of Directors of this company comprised of Lecturers of the University and Executive Officers related to administrative and financial activities of the University and that had not been disclosed in the financial statements.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Breach of Agreements and Bonds

The value recoverable as at 31 December 2015 from 38 Lecturers who had breached agreements and bonds amounted to Rs.54,739,462. The following observations are made in that connection.

- (i) Legal action had not been taken even by the end of the year under review for the recovery of a sum of Rs.31,136,898 due from 21 officers who had breached agreements and bonds and a sum of Rs.16,110,522 recoverable from 13 officers included therein had remained for over a period of 10 years.
 - (ii) Even though the approval had been given by 08 officers themselves who had breached agreements to recover a sum of Rs.14,978,567 from the University Provident Fund, that money had not been recovered even by 31 December 2015.
- (b) A balance amounting to Rs.5,849,743 unsettled within a period from 04 months to 51 months and payable to suppliers had been included in the creditors balance existed as at 31 December 2015.

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

Non-compliances with the following laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
(i) Sub section 15.10 of Chapter XII and Sub-section 3.18 of Chapter XXIV	In granting no-pay leave for an officer, if any loan had been granted to the officer, the Head of the Institution should ensure that satisfactory arrangements are made for the recovery of those amounts. Further, an officer applying for no-pay leave for employment abroad should settle the loan before he is granted the leave. However, action in terms of above provisions had not been taken in respect of loans amounting to Rs.447,213 recoverable from 08 officers in the University, who had obtained no-pay leave.
(ii) Sub section 4.2.5 of Chapter XXIV	If the officer's service terminates earlier than anticipated, the remaining amount recoverable from an unsettled loan should be recovered even from the gratuity funds. Nevertheless, action in terms of above provisions had not been taken in respect of loans amounting to Rs.427,213 recoverable from 03 resigned officers.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 104(3) and (4)	The preliminary report and the full report in respect of the motor vehicle accident with the value of loss amounting to Rs.1,642,139 had not been submitted to audit.
(ii) Financial Regulations 137, 226 (1) and 264	It was observed in audit test check of recurrent expenditure in July 2015 that payments had been made without approving 19 vouchers valued at Rs.3,126,117, quoting the special authority on 35 vouchers valued at Rs.6,792,653 and without obtaining a receipt from a payee, in acknowledgement of the money of 24 vouchers valued at Rs.1,450,406.

- (c) Establishments Code for the University Grants Commission and the Higher Educational Institutions
Section 3.1 of Chapter XX

Even though every person, employed in every Institution of Higher Education should record the time of arrival and the time of departure in the Attendance Register, the academic staff had not marked the arrival and departure. As such, remuneration amounting to Rs.809,992,941 had been paid for the year under review without confirming the signatures of arrival and departure of the academic staff.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the University for the year ended 31 December 2015 had resulted in a deficit of Rs.220,259,676 as compared with the corresponding deficit of Rs.241,609,866 for the preceding year, thus indicating a decrease of Rs.21,350,190 in the deficit of the year under review as compared with the preceding year. Even though the expenditure had increased by a sum of Rs.364,390,915, increase of the income by a sum of Rs.385,741,105 had attributed to the decrease in deficit.

In the analysis of the financial result of several preceding years, the financial result had deteriorated continuously and the deficit of Rs.32,112,865 in the year 2011 had become a deficit of Rs.220,259,676 in the year 2015. Non-receipt of adequate recurrent grants for expenditure and failure in paying attention on other sources of income had attributed to such a position. However, in considering the payment of employees' remuneration, depreciation for non-current assets and payment of taxes, the contribution had become a surplus. It had continuously improved from the year 2011 to the year under review and its increase was 24 per cent in the year under review as compared with the preceding year.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Nine hundred and twenty eight, 358 and 288 students had been enrolled to the Faculties of Engineering, Architecture and Information Technology respectively in the year 2015 and the enrollment of students had gradually improved in considering the 05 preceding years. An improvement of 10, 17 and 38 per cent had been shown in the enrollment of students to the Faculties of Engineering, Architecture and Information Technology respectively in the year under review as compared with the year 2011.
- (b) Even though 3,403 students had applied for the hostel accommodation for the year 2015, hostel accommodation had been provided only to 1107 students, that is 32 per cent out of students applied in the year under review.

4.2 Management Activities

The following observations are made.

- (a) Action had not been promptly taken in terms of Section 7.2 of Chapter V of the Establishments Code for the Higher Educational Institutions in respect of officers who had vacated the service. As such, a period of 01 year and 03 months had lapsed in informing the four officers who had vacated the service.
- (b) An officer who obtained study leave with salary from 06 April 2012 to 30 April 2015 for Postgraduate studies had reported for duty of the University again with effect from 05 February 2015 without completing the relevant postgraduate studies. However, the sum of Rs.1,848,272 which should be reimbursed from the relevant officer in terms of paragraph 14(a) of the Agreement entered into in obtaining leave for postgraduate studies, had not been recovered even as at the end of the year under review.
- (c) Despite not having taken action in terms of agreements in several instances and having observed that service had not been rendered effectively, action had been taken in terms of agreements entered into with a private security service company for maintenance of security purposes of the University from the year 2011 to the end of the year under review and payments of Rs.18,838,760 had been made thereon in the year under review.
- (d) It had been informed that the results of the Examinations conducted by the University should be released within a period of 03 months in terms of the Circular No.636 dated 14 July 1995 of the University Grants Commission. Nevertheless, release of results of 102 examinations out of 143 held in the academic years of 2014 and 2015 had been delayed from 03 months to 20 months. As such, considering the delay in the release of results of examinations as a whole, it had taken a high value such as 71 per cent.

4.3 Underutilization of Funds

The following observations are made.

- (a) Action had not been taken to award any scholarship during the year under review from 61 funds amounting to Rs.11,781,905 and during the 05 preceding years from 40 Funds amounting to Rs.7,719,399 established for the award of scholarships. The Vice Chancellor had informed the audit that relevant scholarships could not be awarded due to failure in fulfilling the intended achievement level.
- (b) A grant amounting to Rs.2,004,487 received from the Government for Postgraduate Degrees of the academic staff of the University had been inactive since the year 2007.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) Action had not been taken as planned to use the garbage disposal place constructed by spending a sum of Rs.1,426,994 in the year 2014.

- (b) A motor vehicle costing Rs.925,000 had been removed from use since the year 2013 without disposing and parked on the premises of the University exposing to the elements.

4.5 Lands and Buildings not properly vested

The land with an extent of 55 acres owned by the Government, of which the book value amounted to Rs.260,843,500, where the University of Moratuwa is situated and 05 Properties which were used by the University but rates and taxes thereof are paid by the University in the name of the previous owner, had not been vested with the University even up to the end of the year under review.

5. Accountability and Good Governance

5.1 Annual Action Plan

Even though an Annual Action Plan should be prepared in terms of the Public Finance Circular No.01/2014 of 17 February 2014, it had not been prepared for the year under review.

5.2 Internal Audit

The following observations are made.

- (a) Adequate officers with professional skills in respect of audit had not been recruited and attached to the Internal Audit Unit.
- (b) Even though determination of the progress of the Development Project Schemes implemented by the University, considering the problematic areas in respect of projects and carrying out site inspections should be done as a main objective of an internal audit and functions of the Internal Audit Units in terms of Financial Regulation 133 (a) and (b), adequate action had not been taken in that connection.

5.3 Budgetary Control

Variations were observed between the budgeted and actual expenditure of 05 Objects ranging from 21 per cent to 174 per cent in the year under review and a sum of Rs.9,000,000 made under 05 Capital Objects for the improvement of students' skills, had been used for constructions thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

Areas of Systems and Controls

(a) Fixed Assets Control

(b) Advances Control

Observations

- Non-rectification of errors occurred in identification of useful life.
- Non-transfer of ownership of lands and properties.

- Failure in taking action to settle the advances after completion of the activity.