

## **University of Ruhuna - 2015**

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The audit of financial statements of the University of Ruhuna 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 the 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 Managements 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 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 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 University's preparation and fair presentation of 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.

### **1.5 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 University of Ruhuna 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 Sri Lanka Public Sector Accounting Standards

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The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 01**

The following observations are made.

- (i) Sums totalling Rs.2,970,929 as at the last date of the year under review in 09 Savings Accounts opened for the grant of scholarships had been shown under the long term investments instead of being shown under the cash or cash equivalents in the statement of financial position.
- (ii) A sum of Rs.153,236,034 spent from the University Fund for the construction and purchase of capital assets had been brought to account as receivable as at 31 December of the year under review without the confirmation from the University Grants Commission that it would be reimbursed.
- (iii) Even though assets and liabilities should not be set off against each other unless otherwise required or allowed by the Standards, the sum of Rs.153,236,034 spent on capital expenditure had been set off against each other through the unspent Capital Grants Account and as a result a negative balance of Rs.50,587,750 had been shown.

(b) **Sri Lanka Public Sector Accounting Standard 09**

The balance stocks of maintenance materials valued at Rs.1,536,204 as at 31 December of the year under review had been written off as an expenditure of the year instead of being recognized as the stock of materials maintained for maintenance activities.

#### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) The value of six buildings constructed and handed over to the University in the years 2013, 2014 and 2015 costing to Rs.234,043,340 continued further in the Work-in-progress Account without being capitalized under the buildings. As such, depreciation as well had not been made from the year 2013 to the year under review.

- (b) The value of stock of the seedlings available at the Farm for sale as at 31 December 2015 amounting to Rs.239,290 had not been brought to account.
- (c) The rates payable in respect of the year under review and the preceding years on the properties of the University and the surcharges thereon amounting to Rs.869,224 had not been brought to account.

### **2.2.3 Unexplained Differences**

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A difference of Rs.432,408 was observed in the comparison of the balance of the Gifts and Donations Account of the Faculty of Engineering shown in the financial statements and the schedule related thereto.

### **2.2.4 Lack of Evidence for Audit**

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Replies to 25 audit queries valued at Rs.872,232,218 out of 92 audit queries in respect of the year under review issued up to 31 March 2016 had not been furnished even by 30 June 2016.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Sums totalling Rs.27,078,578 as at the end of the year under review remained receivable from 20 Lecturers over periods ranging from 01 year to 15 years for the breach of agreements and bonds entered into with the University.
- (b) Advances for researches and external programmes relating to 01 year to 07 years as at 31 December of the year under review totalling Rs.1,466,849 had not been settled even by 30 June 2016.

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

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Non-compliance with the following laws, rules, regulations and management decisions were observed.

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

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- (a) Establishments Code for the University Grants Commission and Institutions of Higher Education - Chapter XX Sections 3.1 and 3.2

#### **Non-compliance**

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Salaries and allowances for the year under review amounting to Rs.1,105,134,777 and Rs.1,415,806 had been paid to 478 officers of the Academic Staff and 2 Lecturers serving on the assignment basis respectively without substantiating of their times of arrival and departure.

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

- Financial Regulation 104

Action in terms of the Financial Regulation had not been taken on the losses amounting to Rs.322,290 caused by two accidents to motor vehicles in the year under review.

(c) Circulars of the University Grants Commission

(i) Circular No. 737 of 18 August 1998

A sum of Rs.41,896,466 recovered from the persons who had breached agreements had not been invested in Fixed Deposits or Treasury Bills. The interest of Rs.1,283,507 received for the investments so made in a preceding year had been utilized for activities extraneous to the objective specified in the circular.

(ii) Circular No. 13/2015 of 18 September 2015

An overpayment of Rs.79,326 for 678 litres of petrol which exceeded the limit of 140 litres of petrol supplied monthly to the Deans of Faculties for transport facilities, had been made to the Dean of the Faculty of Humanities and Social Sciences.

(d) Treasury Circulars

(i) Circular No. 842 of 19 December 1978

A formal Register of Fixed Assets had not been prepared for the fixed assets costing Rs.8,438,459,798 as at the end of the year under review.

(ii) Circular No. IAI/2002/02 of 28 November 2002

A Register of Fixed Assets had not been maintained for the computers costing Rs.206,132,592 as at the end of the year under review.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial results of the University for the year ended 31 October 2015 had been a surplus of Rs.28,852,186 as compared with the corresponding surplus of Rs.42,347,533 for the preceding year, thus indicating a deterioration of Rs.13,495,347 in the financial result of the year under review as compared with the preceding year. Despite the increase of the operating income by a sum of Rs.434,088,733 the increase of the total expenditure by a sum of Rs.447,584,080 had been the reason for the above deterioration.

An analysis of the financial results for the year under review and 04 preceding years revealed that though there was a surplus in the year 2011, there were deficits in the years 2012 and 2013 and surpluses again in the years 2014 and 2015. Nevertheless, in taking into consideration the employees remuneration, taxes and depreciation on non-current assets, the contribution of the year 2012, as compared with the year 2011, had deteriorated, it had gradually improved in the subsequent years. Accordingly the contribution of Rs.1,778,438,697 for the year 2014 had improved by 21 per cent to Rs.2,155,374,403 in the year under review.

### **3.2 Legal Action Instituted against the University or commenced by the University**

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The University had filed 03 cases in the Supreme Court and the District Court by the end of the year under review and a sum of Rs.5,760,894 remained receivable from a case filed in the District Court. Different parties had filed 26 cases comprising 13 complaints filed in Labour Tribunals, 09 cases filed in the Courts and 04 complaints filed in the University Appeals Tribunal, against the University. Compensations amounting to Rs.28,905,977 had been claimed from two cases filed against the University.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Objectives of the University**

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According to the Strategic Plan prepared by the University for 5 years from the year 2014 to the year 2018, seven major objectives to be achieved are summarized below.

- (i) Expanding accesses to education, research and services and enhancing quality and relevance.
- (ii) Ensuring justice and equity with respect to gender, ethnicity and religion and differently abled persons.
- (iii) Enhancing good governance through effective and efficient management of resources.
- (iv) Upgrading the University to the top 2000 in the TIMES Higher Education and Q5 ranking list and enhancing the uniqueness of the University.

The following matters were observed in the examinations of the achievement of the above objectives.

- (a) In the enrollment of students for the Academic Year 2014/2015, the enrollments to 11 Courses out of 14 Degree Courses, had been less than the number that could be enrolled by 187 students.

(b) Faculty of Science

- (i) The number of students enrolled to the Three Degree Courses of the Faculty during the 05 preceding Academic Years had been less than the number that could be enrolled by 551 students.
- (ii) A trend in the students registered in the Faculty of Science leaving on transfer to other Universities was observed in the preceding years and adequate steps had not been taken to prevent such situations. As a result, 104 students had left on transfer to other Universities in the Academic Year 2014/2015.
- (iii) The third place in the local grading in the year 2013 had receded to the sixth place and fourth place in the years 2015 and 2014 respectively. In the World University Grading 2353 place in the year 2014 had receded to 3483 place in the 2015. The Audit is of the view that the above status is the reason for the students registered in the Faculty of Science leaving on transfer to other Universities.
- (iv) Even though the student capacity of the Faculty of Science is 1,270 students, 860 students only had been enrolled by the end of the year 2015 and as such the cost per student had increased by Rs.112,091.

(c) Distance and Continuing Education Unit

- (i) Even though a student registered for a Degree Course should complete the Degree within a 3 year academic period, the students registered in the Academic Years 2010 and 2009 had taken 6 or more years to complete their Degrees. Delays ranging from 05 months to 23 months for the release of examination results were observed.
  - (ii) The number of students registered for the Bachelor of Arts Degree course during the years 2009 to 2012 had decreased by 70 per cent from 3,010 to 892. The last date for the registration had been postponed indefinitely as an adequate number of students could not be registered after the year 2012 up to the end of the year under review.
  - (iii) The decrease of registrations in this Unit had been due to the reasons such as the inefficiency of the Academic Activities and the delays in the conduct of examinations and the release of results of examinations.
- (d) Even though provisions amounting to Rs.2,512.8 million had been received during the year under review for the introduction of a new Degree Course, the establishment of an Awareness Centre on Coastal Resources, the University Village Programme, etc. it able to utilize those provisions efficiently for those activities even up to the end of the year under review.
- (e) Even though the responsibility for the implementation of different activities for the achievement of the objectives had been assigned to the Deans of the Faculties and the Heads of Divisions, an Action Plan or the Performance Reports for the year under

review had not been prepared. As such it was not possible for the Audit to examine and establish to what extent activities of the other objectives had been achieved.

#### **4.2 Management Activities**

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The following observations are made.

- (a) A surcharge of Rs.133,252 had to be paid to the Matara Municipal Council due to the failure to pay the rates on the properties of the University in respect of the year 2012 and the preceding years on the due dates.
- (b) Even though it was planned in the year 2014 for the construction of a new Administrative Building and completion of constructions in the year 2016 with the objective of increasing the office accommodation, action even for the commencement of work had not been taken even by 15 May 2016.

#### **4.3 Operating Activities**

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The following observations are made.

- (a) The University Provident Fund dues and the gratuities had been paid to 05 Lecturers who had left the University Service without recovering the loans and advances totalling Rs.430,930 recovered from them.
- (b) The Research Reports relating to the research allowances amounting to Rs.1,084,145 paid to 05 Lecturers of the Sinhala Academic Division in the year 2013 had not been submitted eve by 31 December 2015. Out of the 05 Lecturers, two Lecturers had retired with effect from 30 September 2014, and two others had proceeded abroad for academic purposes.
- (c) The balance of the Unpaid Bursaries Account amounting to Rs.8,602,050 as at the end of the year 2014 had increased by 37 per cent to Rs.11,836,350 by the end of the year under review. The reasons for retaining that money had not been furnished to audit.

#### **4.4 Apparent Irregularities**

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The following observations are made.

- (a) A sum of Rs.390,000 at the rate of Rs.97,500 per unit had been paid to a private institution ignoring the specified capacity for the supply of 4 air conditioners of BTU 23500 capacity and installation at 3 places, instead of the supply and installation of 4 air-conditioners of BTU 24000 capacity in accordance with the specifications for the purchase of goods for the Faculty of Fisheries, Marine Science and Technology.
- (b) The University had paid the Value Added Tax amounting to Rs.2,742,362 to 04 institutions which had not paid the value Added Tax actively, to the Department of Inland Revenue and the Value Added Tax amounting to Rs.789,792 to two

institutions which had produced forged Value Added Tax Invoices during the years 2014 and 2015. Action had not been taken even by the end of the year under review for the recovery of those amounts from those institutions.

#### **4.5 Underutilisation of Funds**

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The following observations are made.

- (a) The Project named External Degree Programme created between the Higher Education for the Twenty First Century Project and the University of Ruhuna was scheduled for completion on 23 January 2016. Out of the provision of Rs.25,000,000 received for the Project, a sum of Rs.12,155,374 had not been utilized as the expenditure proposals thereon had not been furnished efficiently.
- (b) According to the agreement entered into between the University of Ruhuna and the University of Vrije in Belgium, a sum of Rs.22,840,222 had been made available for the implementation of the Green Dyke Project during the 05 years from the year 2008 to the year 2013. In view of the failure to complete the project within the specified period, the unutilized sum of Rs.9,293,549 had to be returned to the University of Vrije on 24 February 2016.
- (c) The balances of Development Funds, Fixed Deposits and a Savings Account shown under the long term investments totalling Rs.1,642,389 as at the end of the year under review, had been retained idle over a long period without being utilized for the objectives of the Development Fund.
- (d) Sums totalling Rs.50,593,597 relating to 10 Gift and Donation Accounts shown in the financial statements had been idling over periods ranging from 3 years to 10 years without being utilized for the objectives.
- (e) It was observed that the Government capital grants received for capital expenditure had not been utilized for the relevant activity and that such money had been retained idle. The Government grants not so utilized by the end of the year under review amounted to Rs.102,648,284.
- (f) A sum of Rs.47,115,612 transferred from the Income Account to the Fund Account of the Distance and Continuous Education Unit had been brought forward over a period of 3 years without being spent on the objectives of the Fund. No money whatsoever had been transferred from the Income Account to this Account during the year under review and the two preceding years.

#### **4.6 Idle and Underutilised Assets**

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The following observations are made.

- (a) Four Laptop Computers costing Rs.527,520 supplied to the Lecturers of the Faculty of Humanities and Social Sciences, a Lathe Machine valued at Rs.2,249,500 purchased for the Agricultural Engineering Academic Division and 15 computers

valued at Rs. 1,162,500 supplied to the Magampura Multi Subject Education and Research Centre had been idling as at 26 October 2015 that is nearly 02 years beyond the expiry of the guarantee period.

- (b) The scenic air conditioned building complex with a tiled floor area of 5,944 square feet of the Magampura Multi Subject Education and Research Centre affiliated to the University of Ruhuna transferred to the University by the District Secretary in the year 2013 remained closed down without being used for any useful purpose.
- (c) The Day Care Centre constructed at a cost of Rs.3,622,242 in the staff quarters complex at Kospelawatta remained closed down since October 2014 without being used for any purpose whatsoever.
- (d) Even though 60 computer tables costing Rs.463,000 had been purchased from a private institution on 04 November 2014 for the Computer Unit of the Electronic and Information Academic Division of the Faculty of Engineering, 47 of those tables had been stacked without protection near the entrance of the Computer Division even by 31 December 2015. Similarly, equipment valued at Rs.5,645,536 received by the Academic Division on 08 April 2015 for the purposes of the laboratory, could not be made use of even by 28 January 2016 as the Audio Visual Laboratory planned to be constructed for that Unit had not been constructed even by January 2016.

#### **4.7 Uneconomic Transactions**

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A sum of Rs.11,341,000 had been approved for 04 Lecturers to follow Higher Education Courses. Even though their academic periods of study had expired on 01 October 2015, the scientific theses relating to their Higher Education Courses had not been submitted even by 19 February 2016.

#### **4.8 Identified Losses**

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The stock of 31 chemicals valued at Rs.380,117 had expired by the end of the year under review due to the purchase of chemicals without identifying the requirements properly. Audit test checks of 2 Academic Divisions revealed that 23 chemicals valued at Rs.313,363, a stock of 231 kilogrammes of 8 chemicals, the value of which was not revealed, and 20 litres of another chemical had been kept in storage over periods ranging from 01 year to 06 years without being made use of.

#### **4.9 Contract Process**

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The following observations are made.

- (a) Out of 08 works which should have been completed by 20 November 2015 the physical progress of 04 works had been at 15 per cent to 50 per cent level. The physical progress of another work had been zero. Out of the provision of Rs.283,000,000 received for these 08 works, the expenditure incurred up to 20 November 2015 amounted only to Rs.95,550,000. As such the financial progress of the works had been at a low level of 34 per cent.

- (b) Even though the construction of the proposed building complex for the Faculty of Management and Finance should have been completed by 17 December 2014, the physical progress of construction work by 20 November 2015 had been 68 per cent. Even though a sum of Rs.12,970,908 had been recovered from the contractor as liquidated damages for the delay, subsequently, the extension of the contract period had been approved and the money recovered had been refunded to the contractor.

#### **4.10 Delayed Projects**

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An agreement for a sum of Rs.3,346,168 had been entered into with a private contractor on 05 January 2015 for the modernization of the Computer Unit of the Electronic and Information Academic Division of the Faculty of Engineering. The contractor had abandoned the work by 17 September 2015 after executing a part of the work.

#### **4.11 Staff Administration**

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The following observations are made.

(a) **Academic Staff**

All 5 posts of Professor approved for the Faculty of Engineering had been vacant and there were 148 vacancies in the post of Lecturer of all 07 Faculties. Out of that, vacancies in the Faculties of Medical, Engineering and Science had been as high as 41, 34 and 23 respectively and that had been an impediment for imparting an effective education to the students who are studying in those Faculties.

(b) **Non-Academic Staff**

- (i) Vacancies in 13 posts of the Staff Grade, 50 posts in the Non-staff Grade and 104 posts in the Minor Grades in the Non-Academic Staff existed.
- (ii) A scheme of transfers among the Departments and Divisions had not been implemented and as such it was observed that 26 officers in the clerical and the allied services of the different Departments and Divisions of the Faculty of Medicine had been serving in the same Divisions over periods ranging from 06 years to 32 years.
- (iii) The Technology Officer attached to the Food and Technology Academic Division of the Faculty of Agriculture had been attached with effect from 28 October 2013 to the Computer Division of the same Faculty where no such post existed. In consequence, a labourer attached to that Division had been deployed in the vacancy created in the Academic Division. As such, the quality services of a Technology Officer had been deprived of to the practical tests of the Academic Division over a period exceeding two years.

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

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### **5.1 Action Plan**

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An Action Plan for the year under review in terms of paragraph 4 of the Public Finance Circular No. 01/2014 of 17 February 2014 had not been prepared.

### **5.2 Audit and Management Committees**

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Even though the Audit and the Management Committee should meet at least once in every three months in terms of the Public Enterprises Circular No. PED/55 of 14 December 2010, only 02 meetings had been held during the year under review.

### **5.3 Budgetary Control**

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Variations ranging from 15 per cent to 193 per cent were observed between the budgeted and the actual expenditure for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.4 Tabling of Annual Reports**

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The Annual Reports for the years 2012 and 2013 had not been tabled in Parliament even by 15 April 2016.

### **5.5 Unresolved Audit Paragraphs**

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The University had not paid adequate attention to the following Audit paragraphs which had been pointed out in the Reports of the Auditor General for the preceding years.

- (a) (i) Financial assistance of Rs.1,740,622 had been provided to a Temporary Lecturer and a Permanent Lecturer without entering into a bond for the completion of the higher education qualifications under the Specific Agreement on Research Co-operation between the Swedish International Development Co-operation Agency Project implemented by the Faculty of Fisheries and Marine Science and Technology from the year 2006 to 2010.
- (ii) Those two Lecturers are not in the service of the University at present and there was no information whatsoever for the confirmation that the qualification had been completed. It was also observed that no benefits had accrued to the University from the expenditure incurred thereon.
- (b) (i) An advance of Rs.751,463 had been paid 4 years ago, for the purchase of scientific equipment from an institution in Germany for the Food and Technology Academic Division of the Faculty of Agriculture. The equipment had not been received by the University. Nevertheless, no follow-up action whatsoever had been taken even by March 2014.

- (ii) The equipment required by the Academic Division had been imported again from an institution in India at a cost of Rs.329,179 and that institution had supplied equipment which had not been ordered as well. Another part had not been received. Even though equipment with various defects had been received by the University over a year ago, no action whatsoever had been taken in that connection.

## 5.6 Execution of Environmental and Social Responsibilities

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The following observations are made.

- (a) The solid waste including different kinds of garbage disposed of by 8 canteens situated in the University and the institution supplying the cleaning services had been dumped near the Wella-madama Bridge. The disposal of garbage to that place after 30 May 2016 had been prohibited due to the various environmental problems that had arisen.
- (b) Even though it was possible to implement various programmes for the minimisation of direct and indirect impact on the health, environment and the society through the use of plastic and polythene in co-operation with the public institutions, an adequate attention had not been paid in that connection.
- (c) The attention of the University had not been paid for the implementation of different environmental friendly programmes such as the prohibition of polythene bags and food wrappers less than 20 microns prohibited at present, controlling the polythene, other materials and plastic over 20 microns brought into the premises, encouraging the staff and the students towards packing methodologies other than polythene, etc.

## 6. Systems and Controls

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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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Fixed Assets Control	Non-maintenance of the Register of Fixed Assets, failure to take action on the idle fixed assets.
(b) Accounting	Failure to take action to identify and account for the stocks and the constructed assets.
(c) Financial Control	Retaining money in the Bank Accounts without being utilized for the intended activities.
(d) Staff Administration	Failure to recruit officers for vacancies.

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| (e) Contract Administration | Lack of proper supervision of contract work.   |
| (f) Motor Vehicles Control  | Failure to take action on accidents caused to motor vehicles in terms of the Financial Regulations. Failure to complete the Daily Running Charts and Monthly Performance Summaries and furnished to the Auditor General. |
| (g) Operating Controls      | Non-completion of the objectives based activities and inefficiencies in the preparation and implementation of plans.   |