

## **Institute of Technology - University of Moratuwa – 2016**

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The audit of financial statements of the Institute of Technology - University of Moratuwa for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 Sub-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 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**

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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 2016 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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In terms of Sri Lanka Public Sector Accounting Standard 07, the useful life of non-current assets had not been annually reviewed and as such, property, plant and equipment costing Rs.41,497,929 had been fully depreciated. Nevertheless, they were still in use. Action had not been taken to revise the error occurred in estimating the depreciation rates in terms of Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Unexplained Differences**

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The following observations are made.

- (a) According to the financial statements, the value of long term investments amounted to Rs.14,433,695. However, according to the schedule presented to Audit, that value amounted to Rs.14,628,056 thus observing a difference of Rs.194,361.
- (b) Even though the income in the year under review from application fees for the National Diploma in Technology (NDT) amounted to Rs.884,456, according to the schedule, it amounted to Rs.907,050 thus observing a difference of Rs.22,594.

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

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A sum of Rs.1,572,914 was recoverable from a lecturer who was on academic leave abroad due to breach of bond and she had agreed on 26 January 2016 for that sum to be recovered from the University Provident Fund. Accordingly, the Institute had informed the University Grants Commission on 26 August 2016 to take action to recover this amount from the University Provident Fund. However, that amount had not been recovered even by 31 December 2016.

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

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The following non compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliances</b>
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(a) Section No.45(2) (I) (xv) of the Universities Act, No.16 of 1978	Even though it is mentioned that investing any moneys belonging to the University in any security in which, it is lawful to invest moneys with the approval of the Commission, or to place on fixed deposit, in any bank approved by the Commission is a function of the Council, a period of over 10 years had lapsed even by 20 March 2017 after the establishment of 04 funds totalling Rs.1,494,483. Nevertheless, those funds had been retained in the current account of the Institute of Technology without investing in any activity whatsoever.
(b) Inland Revenue Tax Circular 07 of Pay As You Earn Tax	Pay As You Earn Tax of 16 per cent had not been recovered on salaries totalling Rs.553,216 paid for 08 months at the rate of Rs.69,152 per month for the period from 31 December 2015 to 31 July 2016 to the officer who had served as Senior Assistant Bursar in the Institute of Technology, taking sabbatical leave after serving previously as the Senior Assistant Bursar of the University of Moratuwa.
(c) Matter No. II of Finance Circular Letter No. 2/2015 of the University Grants Commission	Even though the Mahapola Scholarship amounts unpaid in a certain month should be returned to the Mahapola Trust Fund on or before the 20 <sup>th</sup> of the following month, a balance amounting to Rs.384,600 brought forward from the year 2015 had remained unsettled up to 31 December 2016.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Institute for the year ended 31 December 2016 had been a surplus of Rs.2,698,268 as against the deficit of Rs.3,754,212 for the preceding year, thus indicating an improvement of Rs.6,452,480 in the financial result of the year under review as compared with the preceding year. The increase in Government grants by Rs.28,900,000 or 23 per cent received for recurrent expenditure in the year under review as compared with the preceding year, had resulted in the above improvement.

In the analysis of financial results for the year under review and 04 preceding years, the deficit of Rs.3,510,686 in the year 2012 had converted into a surplus of Rs.2,698,268 by the year 2016 and a considerable variance was observed in the financial result during this period. However, after making adjustments for employees' remunerations in the financial result, the contribution of the Institute amounting to Rs.59,256,335 in the year 2012 had increased continuously and it had been Rs.129,448,778 in the year under review.

#### **3.2 Legal Action initiated by the Institute**

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A case had been filed by the Institute in the District Court of Moratuwa against an external institution claiming compensation of Rs.05 million and the defending party of that case had appealed to the High Court in respect of that case. It had not been revealed in the accounts in this connection.

### **4. Operating Review**

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#### **4.1 Performance**

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This Institute has been established as an institution affiliated to the University of Moratuwa, with the objectives of establishing a physical environment compatible with a modern post-secondary Technological Institute, creating a teaching and skills training system that is flexible and accessible to a larger student population in order to cater to the needs of the society and industry, establishing an environment that promotes research of practical relevance and encourage innovation and creativity, developing a team of qualified and motivated staff, creating an environment that promotes the total development of students and developing a management system that ensures quality and efficiency at all levels of the Institution.

The following observations are made.

- (a) According to the Action Plan, it had been planned to spend a sum of Rs.100,000 for the purchase of sports goods in the years 2015 and 2016. However, no amount whatsoever had been spent therefor during those years.

- (b) Nine departments of the Institute had been in operation and in comparison of the number of students that should be enrolled in 03 departments with the number of students enrolled in the academic years of 2013/2014 and 2014/2015, 11 student vacancies ranging from 6 per cent to 47 per cent, 09 student vacancies ranging from 5 per cent to 40 per cent existed respectively and 06 student vacancies ranging from 33 per cent to 40 per cent existed in 02 departments in the academic year of 2015/2016.
- (c) (i) Out of 504 students who sat for the first year examination in the year 2016, only 334 students had passed the examination and 34 per cent of the students had failed the examination. In the examination carried out relating to those students failed, 36 per cent of the students who sat for the examination in the Mechanical Engineering Division and 39 per cent of the students who sat for the examination in the Textile and Clothing Technology Division had failed.
- (ii) Out of 484 students who sat for the second year examination in the year 2016, only 357 students had passed the examination and 27 per cent of the students had failed the examination. In the examination carried out relating to those students failed in the second examination, 41 per cent of the students who sat for the examination in the Mechanical Engineering Division and 35 per cent of the students who sat for the examination in the Textile and Clothing Technology Division had failed.
- (d) Even though 03 co-curricular programmes each and 03 extracurricular programmes each had been planned to be implemented by the 09 departments for the improvement of the competitiveness of students, only one exhibition and one sports programme had been implemented by the combination of departments.
- (e) Even though 02 courses of Information Technology (IT) and Quantity Surveying (QS) had been proposed to be newly introduced to students in the year 2016, those courses had not been commenced in the year 2016.
- (f) Even though provisions of Rs.1,000,000 had been allocated in the year 2016 for research purposes of improving innovation and creativity, 39 researches had been carried out by spending only a sum of Rs.478,215 representing 48 per cent of the provisions.

#### **4.2 Staff Administration**

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The following observations are made.

- (a) The academic and non-academic staff of the Institute comprised 28 and 11 vacancies respectively and they stood at 48 per cent and 20 per cent respectively.
- (b) In terms of Section 18.1 (1) of Chapter III of the Universities Establishment Code, immediately after becoming aware that a vacancy exists in the staff of a higher education institution, the relevant Appointing Authority should take steps to fill that vacancy. However, steps had not been taken even by 31 December 2016 to fill the vacancy of the post of Deputy Bursar of the Institute that existed since 15 January 2015.

- (c) Even though a sum of Rs.15,000,000 had been allocated to recruit 50 visiting lecturers in the year under review, with a view to establishing a qualified staff, 21 visiting lecturers and 35 instructors in addition had been recruited by spending a sum of Rs.14,957,457.

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

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and Draft Annual Reports should be presented to the Auditor General within 60 days after the closure of the year of accounts. Nevertheless, the financial statements of the year 2016 had been presented on 28 April 2017.

### **5.2 Internal Audit**

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In terms of paragraph 3 of the D.M.A/2009(1) Guidelines in respect of internal audit, a separate internal audit unit had not been established.

## **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 the Institute from time to time. Special attention is needed in respect of the following areas.

### **Areas of Systems and Controls**

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### **Observations**

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(a) Staff Administration	Failure in taking action to fill vacant posts.
(b) Budgetary Control	Preparation of the Budget without a definite forecast.
(c) Funds Management	Failure in taking action to achieve the objectives of the funds established.
(d) Control of Operations	Failure in taking proper steps on breach of agreements and bonds.