

## **University College of Kuliypitiya - 2016**

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The audit of financial statements of the University College of Kuliypitiya affiliated to the University of Vocational Technology 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 notes 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 47(2) of the University of Vocational Technology Act, No. 31 of 2008 and Section 17(2) of the Notification published in the Gazette Extraordinary No.1882/51 of 03 October 2014. My comments and observations which I consider should be published with the Annual Report of the University College in terms of Section 49(1) of the Universities of Vocational Technology Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The 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 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 College'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 College'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.

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 University College of Kuliypitiya affiliated to the University of Vocational Technology 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 Accounting Deficiencies**

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The following observations are made.

- (a) The land, 5.42 hectares in extent where the University College of Kuliypitiya is located now and the value of buildings constructed prior to the year 2016 had not been assessed and shown in the financial statements.
- (b) Out of the value of buildings amounting to Rs.11,775,208 constructed during the year under review, only a sum of Rs.10,661,197 had been brought to accounts and as such the value of buildings had been understated by Rs.1,114,011 in the financial statements.
- (c) Provision for transport expenses of Rs.33,000 payable relating to the year under review had not been made in the financial statements.
- (d) Instead of accounting the refundable library deposit of Rs.163,500 under liabilities, it had been transferred to a student's Welfare Society Fund.

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

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The following instances of non-compliance were observed.

**Reference to Laws, Rules, Regulations and Management Decisions**

**Non-compliance**

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

Financial Regulations 756 (1)

Although the board of survey for the year under review had been appointed on 14 December 2016, surveys had not been completed on the specified date.

(b) Paragraph 06 of the Circular No.SEC/2015/05 dated 06 July 2015 of the Commissioner General of Inland Revenue and Public Administration Circular No.03/ 2016 dated 29 April 2016.

In making payment of allowances to visiting lecturers, PAYE tax of Rs.11,950 to be recovered had not been recovered.

(c) Public Enterprises Circular No.02/2015 of 25 May 2015.

A sum of Rs.71,603 had been paid to 2 officers in excess of the approved limits for official residential telephones, mobile telephones and internet facilities.

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the financial results of the University College for the year ended 31 December 2016 had been a surplus of Rs.1,912,306 as against the deficit of Rs.667,134 for the preceding year. As compared with the preceding year, an improvement of Rs.2,579,440 in the financial results of the year under review had indicated. The increase of recurrent grants by Rs.12,095,935 during the year under review had been the reason for the above improvement.

In analyzing the financial results for the year under review and the preceding year, a surplus in the financial results had existed. When the employee remuneration was re-adjusted to the financial results, the contribution of the University College amounting to Rs.15,192,720 in the year 2015, had increased to Rs.25,683,276 in the year 2016.

**4. Operating Review**

**4.1 Performance**

According to the Vocational Technology University College Ordinance No.01 of 2014, it was stated as objectives of the College, that conducting Technological Courses at levels 5,6 and 7 of National Vocational qualifications and other Technological Courses at similar levels. The following observations are made in respect of the performance in fulfilling those objectives.

- (a) Even though National Vocational Qualifications Levels 5,6 and 7 and 9 similar level courses approved by the University of Vocational Technology had been introduced, those courses had not been commenced, as the lecturers for Refrigeration and Air Conditioning Technology Course could not be recruited. Out of 238 students enrolled for 8 courses, 09 had dropped out from courses.
- (b) Due to delay in releasing the results of the final examination of National Vocational Training Course, 5-2 held in July 2016 for all the courses as a result of Scrutinizing the answerscripts in the second time as well by the Tertiary and Vocational Education Commission, such results had not been released even by April 2017. Furthermore, the second year answerscripts of the National Vocational Training Courses at level 5, which had been completed by 21 July 2016 had not been referred to the Tertiary and Vocational Education Commission for the Second Scrutiny even up to the end of the year under review.
- (c) Out of 231 students sat for the foundation examination for all courses held in July 2016, 56 students had failed the examination, representing 24 per cent. It was the view of the Administrative Director of the University College that the formation trend of students on a Technological subject stream at an Engineering level had been at a low level and that was the reason for failures.
- (d) Number of students attached to external institutions for practical training of 06 courses amounted to 98 out of which 35 had halted the training half way.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Action had not been taken to acquire the ownership of 2 motor vehicles to the College which had been shown as Rs.15,374,800 in the financial statements.
- (b) As the projects relating to the sum of Rs.30,912,106 received under the Skills Development and Training Project during the year under review had not been properly planned and managed, a sum of Rs.3,091,406 had to be returned to the University of Vocational Technology, Ratmalana .
- (c) Motor vehicle garage and the mechanical works unit constructed by incurring an expenditure of Rs.1,846,434 and Rs.1,787,900 respectively during the year under review could not be used due to non-availability of electricity and other infrastructure facilities.

#### **4.3 Operating Activities**

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The following observations are made.

- (a) Due to non-availability of three phase electricity, certain equipment in the Automobile Division could not be operated and as a result, the students could not be obtained the relevant training completely.

- (b) Action had not been taken to get the refundable library deposit of Rs.343,500 from 229 students during the year under review.
- (c) Action had not been taken to purchase furniture and equipment valued at Rs.400,000, which had been approved for the Beauteous Course, even in the year under review.
- (d) Toner cartridges valued at Rs.289,307 purchased in 7 instances during the year under review had not been posted to the stock book and any information whatsoever was not available for the issue of them.

#### **4.4 Idle and Under-utilized Assets**

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Even though 2 years had elapsed after supplying plant machinery and equipment valued at Rs.41,061,371 for the Refrigeration and Air Conditioning course, such machines had been idle as that course had not been commenced.

#### **4.5 Procurement Process**

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The following observations are made.

- (a) Furniture and equipment valued at Rs.3,449,657 had been purchased during the year under review in 5 instances, exceeding 62 per cent of the total cost estimate without a formal approval.
- (b) Disregarding the minimum price of Rs.4,880 per chair submitted by the State Trading (Miscellaneous) Corporation in purchasing 100 examination hall chairs, purchases had been made from a private institution at Rs.6,549 per chair and as such a loss of Rs.166,900 had been sustained.

#### **4.6 Personnel Administration**

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The following observations are made.

- (a) According to the approved cadre, 08 lecturers and 2 Demonstrators in the academic staff and 3 Management Assistants in the non-academic staff, 13 posts in total had fallen vacant.
- (b) As a result of not recruiting lecturers for the vacant posts, a sum of Rs.1,108,725 had to be paid to the visiting lecturers during the year under review.

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

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### **5.1 Action Plan**

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Although the action plan for the year under review had been prepared in terms of Public Finance Circular No.01/2014 dated 17 February 2014, the approval of the Board of Control had not been obtained and it had not been periodically reviewed and updated as well.

### **5.2 Audit Committee**

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In terms of Paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, an audit committee had not been set up.

### **5.3 Internal Audit**

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According to the Paragraph 03 of the Guidelines No.DMA/2009(1) dated 09 June 2009 of the Department of Audit and Management, an internal audit unit should be established. Nevertheless, action had not been taken to set up such a unit even after the lapse of 2 years from the commencement of the University College.

### **5.4 Procurement Plan**

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The annual Procurement Plan had not been prepared even by 31 December 2015 in terms of National Budget Circular No.128 of 24 March 2006.

### **5.2 Budgetary Control**

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The following observations are made.

- (a) Although a budget for the year under review had been prepared by the University College in terms of Paragraph 5.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the approval of the Board of Control had not been obtained before 3 months of the beginning of the relevant year.
- (b) The budgeted expenditure of 12 objects totalled Rs.23,933,279 whereas the actual expenditure thereof totalled Rs.15,456,394. As variations ranged from 13 per cent to 210 per cent, the budget had not been made use of as an effective instrument of financial control.

## **6. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit had been referred to the attention of the Director of University College from time to time. Special attention is needed in respect of the following areas of systems and control.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Accounting	<ul style="list-style-type: none"> <li>(i) Retention money to be accounted through a deposit account but accounted as Pre-payments.</li> <li>(ii) Ledger Accounts not balanced.</li> <li>(iii) Journal Entries not posted to the Ledger.</li> </ul>
(b) Fixed Assets Control	<ul style="list-style-type: none"> <li>(i) Non-maintenance of the register of fixed assets.</li> <li>(ii) Class of Property, Plant and Equipment not properly classified.</li> <li>(iii) Code numbers used in accounting revenue and expenditure not correctly used.</li> </ul>
(c) Control of Vehicles	<ul style="list-style-type: none"> <li>(i) Running Charts not completed.</li> <li>(ii) Fuel consumption not tested.</li> <li>(iii) No supervision of the officers in charge of motor vehicles.</li> <li>(iv) Log books not maintained.</li> </ul>
(d) Personnel Administration	<ul style="list-style-type: none"> <li>(i) Not filling staff vacancies.</li> <li>(ii) Tend to make payments to visiting lecturers.</li> </ul>
(e) Control of Operations	<ul style="list-style-type: none"> <li>(i) Courses not completed within the specific periods.</li> <li>(ii) Students would not get sufficient practical training.</li> <li>(iii) Tend to take practical training for students from external training institutions.</li> </ul>