

University of Moratuwa – 2016

The audit of financial statements of the 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 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. A detailed report in terms of Sub-section 108(2) of the Universities Act was issued to the Vice Chancellor of the University on 29 September 2017.

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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks 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 the 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 Moratuwa University of Sri Lanka 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

2.2.1 Sri Lanka Public Sector Accounting Standards

(a) Sri Lanka Public Sector Accounting Standard 07

The following observations are made.

- (i) As the useful life of fixed assets had not been reviewed annually, fixed assets costing Rs.2,397,553,848 which had been fully depreciated had been further used. Accordingly, the estimated error had not been rectified in terms of Sri Lanka Public Sector Accounting Standard 3.
- (ii) A reconciliation in respect of Property, Plant and Equipment had not been presented in terms of Paragraph 86 (e) of the standard.

(b) Sri Lanka Public Sector Accounting Standard 02

Other receipts of Rs.23,497,499 and the net receipts of Rs.13,462,742 in the Research and seminar had been included erroneously as a cash inflow generated from financing activities in the cash flow statement and tallied the cash flow statement. However, detailed schedules relating to these revenues were not made available for audit.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though a sum of Rs.1,353,500,000 had been received as Treasury grants for the year under review, the balance of Rs.1,286,552,289 after being deducted a sum of Rs.66,947,711 as the grants receivable as at the end of the previous year had been shown as the grants received from the Treasury for the year under review.

- (b) The expenditure of Rs.77,406,825 incurred in excess of the remittances received from the Treasury for the year under review had been erroneously shown as receivable from the Treasury as at the end of the year under review in the financial statements.
- (c) If the fund accounts maintained in respect of Postgraduate Course, Projects, Training Programs and other programs conducted by the University become, dormant they should be settled with the recommendation of the Co-ordinator and the approval of the Board of Control according to the accounting policy of the University. Nevertheless, final credit balances of 3 fund accounts inoperative from 3 years totalling Rs.772,525 and the final credit balances of 2 fund accounts inoperative for more than 10 years totalling Rs.1,940,487 had been brought to accounts as differed revenue instead of being accounted as revenue and carried forward in the statement of financial position.
- (d) A total sum of Rs.219,186 paid out of 14 scholarship funds had been brought to accounts as recurrent expenditure instead of debiting to relevant scholarship fund accounts and as such the surplus had been understated by that amount.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the financial statements, the value of closing stock as at the end of the year under review amounted to Rs.19,970,817 whereas according to the schedules that balance was Rs.19,334,611 thus observing a difference of Rs.636,206.
- (b) According to the financial statements the value of work in progress as at 31 December 2016 amounted to Rs.251,323,236 whereas according to the information available in the capital Affairs Services division, that value was Rs.235,915,252 thus observing a difference of Rs.15,407,984.

2.2.4 Lack of Evidence for audit

Assets registers and maintenance files in respect of 07 electric generators, the value of which could not be recognized were not made available for audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The irrecoverable distress loan balance as at 31 December 2016 from 11 staff members amounted to Rs.889,347. Out of it, sums totalling Rs.45,630, Rs.145,775 and Rs.209,666 had remained outstanding for more than 10 years, between 5 years and 10 years and between 1 year and 5 years respectively. Similarly, as action had not been taken in terms of Section 3.18.1 of Chapter XXIV of the Establishments Code in approving no pay foreign leave, it was observed in audit that a sum of Rs.613,508 due from 7 officers had included in that loan balance.

- (b) (i) Thirty one lecturers who proceeded abroad by obtaining academic leave had breached their agreements by 31 December 2016. Even though 21 months and 24 months had elapsed, having being breached the agreements by 2 lecturers of them respectively, the amount recoverable there from had not been computed. Court cases had been filled only to recover a sum totalling Rs.8,933,162 from 5 of 29 lecturers out of the total recoverable amount of Rs.37,804,927 but sufficient course of action had not been taken to recover a sum of Rs.28,871,765 from the balance 24 lecturers.
- (ii) According to the court decision of a case filed to recover a sum of Rs.1,122,267 due from a lecturer who proceeded abroad on academic leave in the year 1989, the complain had been nullified even without cost as the University had not complied with the proper administrative methodology in approving the lecturer to proceed abroad in the second time. According to the court decision, it was decided that a total sum of Rs.820,611 comprising a sum of Rs.703,311 in respect of breach of agreement and a sum of Rs.117,300 as legal cost had to be paid to the University but that money had not been recovered even up to the date of this report. Accordingly, an officer shall be held personally responsible for any loss caused to Government by his own delay, negligence, fault or fraud and should make good such loss in terms of Financial Regulation 156. However, action had not been taken to identify the responsible officer and to recover the money from him even up to 30 June 2017.
- (iii) Even though letters of consent had been given to recover the money from 10 lecturers stated in Paragraph (1) above who had breached agreements from the University Provident Fund, a total sum of Rs.8,136,685 relating to it had not been recovered even by 30 June 2017 after a lapse of 01 to 16 years.

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

The following non-compliances were observed.

Reference to Laws, Rules, etc.	Non-compliance
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(a) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka and the instruction Circular No.2004/සස/1 dated 26 January 2004 of the Chairmen of the National Library Services and Documentation Board.	A Board of Survey in respect of Library books had not been conducted since 2013.
(b) Public Finance Circular No.03/2015 of 14 July 2015.	(i) Even though advances should be settled immediately after the completion of the purpose, it had taken 13 to 33 days to settle advances totalling Rs.197,829 obtained in 6 instances.

- (ii) As the expected expense for the relevant purpose had not been correctly estimated, advances totalling Rs.206,704 had been given in excess of the specified amount in 6 instances.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the year under review had been a deficit of Rs.229,602,809 as compared with the deficit of Rs.220,259,676 in the preceding year, thus indicating a deterioration of Rs.9,343,133 in the financial results in the year under review as compared with the preceding year. Even though the revenue had increased by Rs.449,233,561, increase of expenditure by Rs.458,576,694 had mainly attributed to this deterioration.

In analysing the financial results for the year under review and the preceding 4 years, the financial results had been continuously deteriorated and the deficit of Rs.64,407,671 in the year 2012 had become a deficit of Rs.229,602,809 in the year 2016. However, after being readjusted employees remuneration and depreciation on non-current assets to the financial results, the contribution of the University had taken a favourable value and the contribution of Rs.665,988,174 in the year 2012 had improved to Rs.1,248,780,499 by the end of the year under review.

3.2 Legal events initiated by the University/ against the University

The University had filed a case in the District Court of Moratuwa against an external entity asking for a compensation of Rs.5 million and the defence of this case had made an appeal to the High Court. Similarly, 5 external and internal parties had filed cases in the courts of law against the University.

4. Operating Review

4.1 Performance

Objectives of the University are as follows.

- * Accomplishment of international recognition as centre for excellence in Higher Education.
- * Accomplishment of excellence in researches, innovations and creativeness with National relevance and international recognition.

- * Being a prominent University, providing education as a response to National requirement and industry motives.
- * Creation of an intellectual, physical and Social Environment to accomplish excellence of its activities.
- * Procreation of competent and gratified staff and students with attitudes desirous to meet challenges in a changing Society and well learned Society and a resplendent University.
- * Being the principal counsellor and provider on Higher Technology and other specialised services.
- * Being the principal counsellor in the policy making and National Development within all relevant fields and Higher/ Vocational Education.
- * Establishment of a methodology for quality control and efficient corporate control.

The following observations are made in the achievement of above objectives.

- (a) Even though a sum of Rs.1,700 million had been estimated to acquire 2 lands for the widening of academic activities and for the construction of a Sports Complex under the Infrastructure Facilities Development, action had not been taken to acquire those lands during the year under review.
- (b) Fifty two students vacancies in 7 courses, 47 vacancies in 8 courses and 57 vacancies in 8 courses in the academic years 2013/ 2014, 2014/2015 and 2015/2016 respectively had existed.
- (c)
 - (i) According to the action plan for the year 2016, a provision of Rs.155 million had been made for the commencement of new courses in respect of 7 field in the 4 faculties of the University but only 2 new internal courses and 02 subjects in the Faculty of Engineering had been introduced. Any internal courses and subjects had not been introduced by other faculties during the year under review.
 - (ii) Even though it was planned to commence 7, 4, 2 and 1 Post Graduate Courses in the Faculty of Engineering, Faculty of Architecture, Faculty of Information Technology and Faculty of Graduate academic respectively, only one Post Graduate Course had been commenced in the Faculty of Engineering during the year under review.
- (d) A total sum of Rs.42 million had been estimated in terms of the Action Plan for the year 2016 to improve Library Facilities, purchase of Library books and improvement of electronic learning facilities, desirous of broadening opportunities for knowledge exploration to students within the student centric Education, but the actual expenditure incurred was only Rs.9.25 million. Furthermore, a sum of Rs.5 million had been estimated for the purpose of improving network connection with other libraries, it had not been performed and as such, it was observed that the contribution made for the improvement of library facilities had been at a low level.

- (e) Out of 92 researches operative at the beginning of the year 2016 for the upliftment of inventions and creations by conducting researches, 16 researches for which a provision of Rs.12,001,110 had been granted had been completed but the period of presenting relevant reports had lapsed by the end of the year under review. Furthermore, 63 researches had been newly commenced in the year 2016, and a sum of Rs.34,709,255 or 77 per cent had been spent out of the provision of Rs.45 million made for this purpose in the year under review.
- (f) Three instances of cancelling or withdrawing due to non-implementation of researches were observed. As 3 to 5 years had been taken thereon, the opportunity to conduct those researches had been deprived of.

4.2 Management Activities

Penalties from the University staff had not been recovered on non-returning of library books within the specified period, borrowed from the Library. Certain instances observed that books had been issued to University Staff who had not returned the books, previously borrowed.

4.3 Under utilisation of Funds

The following observations are made.

- (a) Action had not been taken to offer any scholarships during the past 5 years from 36 funds totalling Rs.5,259,288 established for offering scholarships to University students. Furthermore, action had also not been taken to adapt a specific policy, indicating criteria required for awarding scholarships to students on a reasonable basis by scholarship funds.
- (b) Of 26 Departmental Development Funds, no any provisions for 17 funds had been received during the year under review and a sum of Rs.8,642,678 had been received to 9 funds. Accordingly, the total balance as at 31 December 2016 amounted to Rs.14,359,476 and those funds had not been utilised for any development purposes of Departments.
- (c) The opening balances of 18 courses development funds, operated with the objective of incurring expenditure under the activities of staff and students, Laboratory and Departmental equipment and works totalled Rs.5,056,707, out of which provisions totalling Rs.1,605,399 had been received during the year under review for 8 funds. Accordingly, the total balance as at 31 December 2016 amounted to Rs.6,662,106 and those funds had not been utilised for any course development purposes.

4.4 Idle and Under utilised Assets

The following observations are made.

- (a) According to a test check of 4 main electricity generators out of 7 generators in operative condition under the Maintenance Division, it was observed that without considering the maximum number of units consumed at a date in a certain month, generators with a large capacity had been installed in places where generators with small capacity would be required. Accordingly, 62 per cent, 83 per cent and 29 per cent of the capacity of generators, installed in the Information Technology building, new hostel and works Divisions respectively had been wasted. Attention had not been paid to utilise this capacity wastage.
- (b) Three hundred and fifty six litres of paint valued at Rs.274,387 and 110 litres of paint the value of which was not stated existed in the store of the maintenance Division had become obsolete.

4.5 Delayed Projects

The proposed multipurpose Auditorium construction Project valued at Rs.1,273,329 and included in the work in progress had been abandoned.

4.6 Personal Administration

There were 68 and 56 vacancies in the approved academic and non-academic staff of the University respectively and there was an excess of a store keeper.

4.7 Procurement Process

Even though the new canteen complex had been opened on 24 November 2015, chairs and Tables required therefor had been taken on hire basis from a selected entity deviating from government procurement process. Accordingly, a sum of Rs.745,920 had been paid to a private company for hiring 240 chairs at Rs.20 per plastic chair and 50 tables at Rs.40 per plastic table during the period of 4 months since 23 March 2016.

5. Accountability and Good Governance

5.1 Annual Action Plan

The updated organizational structure relating to the year of the University, particulars of approved and actual cadre, the budget for the relevant year, procurement plan and the internal audit plan had not been included in the action prepared for the year 2016 in terms of Paragraph 4 of Public Finance Circular No.01/2014 of 17 February 2014.

5.2 Internal Audit

The internal audit division had consisted of the Senior Assistant Internal Auditor an Audit Assistant, 3 audit clerks, a Computer Input Assistant and a Labourer. Of them officers who had professional competence in auditing had not been attached to the internal audit division except the Senior Assistant Internal Auditor and the Audit Assistant.

5.3 Unresolved Audit Paragraphs

It was emphasised by the Committee on Public Enterprises met on 20 November 2014 that the Uni Consultancy Services Company established within the University premises had been established, contrary to the Universities Act No. 16 of 1978 and concurrence of the Cabinet of Ministers should be obtained therefor. Accordingly, the Chairmen of the University Grants Commission had agreed to get the approval of the Cabinet of Ministers, but such an approval had not been obtained even up to 29 May 2017. Nevertheless, the University had paid a total sum of Rs.3,939,557, comprising a sum of Rs.3,640,142 as management fees and a sum of Rs.299,415 for the MBA in Management Technology Course to the Uni Consultancy Services Company in the year under review.

5.4 Budgetary Control

As variations between the budgeted expenditure and the actual expenditure ranging from 15 per cent to 23 per cent were observed, the budget had not been made use as an effective instrument of Management control.

6. Systems and Controls

Weaknesses in systems and controls were brought to the attention of the Vice Chancellor of the University from time to time. Special attention is needed in respect of the following areas of Systems and Controls.

Areas of Systems and Control	Observations
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(a) Fixed Assets Control	(i) Register of fixed assets not maintained under correct code numbers. (ii) Non-utilisation of assets belonging to the University effectively.
(b) Budgetary Control	Budget forecasts not prepared in terms of each activity with a proper plan.
(c) Funds Management	Action not taken to achieve objectives of creating funds.

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| (d) Stores Control | (i) All responsibilities from the begin of the goods purchasing process up to the issue of goods finally assigned to the Store Keeper. |
| | (ii) Stock books and bin cards not updated and there was a lack of supervision. |
| | (iii) Although the store keeper should have been assigned only for stores routing, purchasing functions had also included in his duty list. |
| (e) Personal Administration | Not recruited for vacant posts. |
| (f) Procurement Process | Non-compliance with Procurement Guidelines. |
| (g) Library Administration | Non-compliance with circular instructions of Library books. |