

University of Kelaniya – 2017

The audit of financial statements of the University of Kelaniya for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, statement of changes in Funds 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 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 University of Kelaniya as at 31 December 2017 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

Sri Lanka Accounting Standard 07

The following observations are made.

- (i) In terms of paragraph 47 of the Standard, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. However, action had not been taken to account the fair value of lands costing Rs.653,159,142 purchased prior to 31 December 2013 after being revalued.
- (ii) As the useful life of non-current assets had not been reviewed annually in terms of paragraph 65 of the standard, 23 motor vehicles costing Rs.52,021,032 had been fully depreciated but further being utilized. Accordingly, the estimated error had not been revised in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Sums of Rs.1,894,340 and Rs.74,773 had been spent for the purchase of a land, 2.51 perches in extent and its stamp fees respectively in the year under review and it had been brought to accounts as recurrent expenditure, instead of being accounted as capital expenditure.
- (b) According to the depreciation policy of the University, motor vehicles depreciated at 20 per cent and as such a vehicle should be fully depreciated at the end of the 5th year. However, 3 motor vehicles acquired in the years 2011 and 2012 costing Rs.16,715,704 had been depreciated by Rs.3,343,141 in the year 2017 as well.

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

The following non-compliance with Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

(i) Financial Regulation 104(3) and (4) Sub-Sections	Eleven motor vehicles belonging to the University had met with accidents in 14 instances but action in terms of financial regulations had not been taken.
(ii) Financial Regulation 396 (d)	Action in terms of financial regulations had not been taken in respect of 254 cheques valued at Rs.1,113,344 which had been cancelled during the period from 17 November 2014 to 30 June 2017.
(iii) Financial Regulation 571	Action in terms of financial regulations had not been taken in respect of tender deposit of Rs.75,000 lapsed for more than 2 years and security deposits of Rs.4,674,889.
(b) Paragraph 9.3.1 (vii) of the Public Enterprises Circular No.PED/12 of 02 June 2003.	Without filling the vacancies in executive staff, 04 officers had been employed on acting basis for a period of 3 months to one year.

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 2017 had been a surplus of Rs.365,899,881 as compared with the surplus of Rs.495,212,649, for the preceding year thus indicating a deterioration of Rs.129,312,768 in the financial results of the year under review as compared with the preceding year. The decrease of external examination revenue by Rs.169,094,386 and the increase of staff cost by Rs.137,382,648 in the year under review as compared with the preceding year had mainly attributed this deterioration.

In analysis of financial results of the year under review and the preceding 4 years, there had been a surplus from the year 2013 to 2017. After readjusting staff remuneration and depreciation on property, plant and equipment, the contribution of Rs.1,572,617,629 in the year 2013 had continuously improved up to Rs.2,691,011,756 in the year 2017.

4. Operating Review

4.1 Performance

4.1.1 Planning

(a) Enrolment of students

The number of students could have been enrolled in the year under review to 5 faculties amounted to 3,205, whereas 3,235 had been enrolled. Excessive students amounting to 12, 12, 45 and 116 had been enrolled to the Faculty of Medicine, Faculty of Computers and Technology, Faculty of Commerce and Management and Faculty of Arts respectively, whereas lesser number of students amounting to 36, 46 and 73 had been enrolled to the speech and Language Therapy course, Faculty of Science and special admission in the Faculty of Arts respectively.

(b) Conducting Lecturers

The following observations are made.

- (i) As lots of lapses such as non-indicating the dates, subject unit, name of the lecturer, signature, the time, lecture was delivered, academic year etc. in the students signature registers were observed it could not be ensured whether the lecturers had covered the number of lecture hours in terms of academic time table.
- (ii) A test check carried out in the Department of Philosophy observed that there were 23 instances were imbalances between the dates stated in the attendance registers maintained by the Faculty offices for visiting lecturers and the dates indicated in the students signature registers.

(c) Centre for Distance and Continuing Education

Centre for Distance and Continuing Education had registered 67,828 students for the last 4 academic years. The following observations are made in this connection.

- (i) Out of 91 students registered in the year 2011 for Bachelor of Science Degree, none of the students had completed the degree even up to 31 August 2018, though 7 years had elapsed.

- (ii) The preliminary examination for 16,079 students registered for 3 courses of Arts, Business Management and Commerce in the years 2014 and 2015 had been commenced on 01 August 2018 and the students had not been enrolled for the academic year 2016.
- (iii) Periods from 3 months to 3 years had been taken to issue the results of 3 examinations relating to the Arts and Business Administration Courses. Test check observed that although more than one year had elapsed after handing over the answer scripts of 11 subjects, the results of which had not been issued so far, to the Heads of Divisions, they had not been returned.

4.2 Management Activities

The following observations are made.

- (a) Action had not been taken to recover the value of 28,876 library books which had been identified as misplaced by the Board of Survey of Library books conducted in the year 2012, from the relevant parties. It was informed me that this number would change according to the Board of Survey report conducted in the year 2017 but that report was not made available to audit even by 31 August 2018.
- (b) Due to non-utilisation of funds for the relevant purposes totalling Rs.174,824,530 existed in 11 fund accounts established in the previous years for special purposes, sums of Rs.132,733,087 and Rs.42,091,443 had been transferred to the University Development Fund and the Medical Faculty Development Fund respectively during the year under review. In addition, the balance of 3 fund accounts opened in the year under review as at 31 December 2017 amounted to Rs.13,705,037 but the actual expenditure incurred by 28 August 2018 was only Rs.959,380.
- (c) Even though, the accommodation and other expenses of lecturers who proceed abroad for the presentation of their research papers should be paid in foreign exchange before proceeding abroad a sum of Rs.1,754,713 had been paid to 7 lecturers in Sri Lankan rupees, who had proceeded abroad in the year under review.
- (d) A sum of US\$ 5442 had been paid to 2 lecturers in the Faculty of Social Science for the participation in the presentation of research's to a seminar held in United Kingdom from 07 to 10 November 2017 as registration fees, incidental expenses, food and lodging fees. Even though, the lodging fees according to the quotations obtained from the hotel amounted to £ 341 for 7 days, it had been treated as 'per day' and made the payment. As a result, it was observed that an over payment of US\$ 3,410 had been made.
- (e) Lecture hours had not been allocated to a senior female lecturer in the Faculty of Social Science from the academic time tables, from the year 2012 to 12 February 2018. One and only evidence to establish whether this lecturer was in service had been only the examination of 20 dissertations and marking 306 answer scraps during the period from 2009 to 2014. However, salaries and all allowances had been paid to

this lecturer during this period. Even though, there was no working service period, a 2 ½ months service extension had been granted to her even beyond the retirement age in terms of Circular No.12/2015 dated 08 September 2015 of the University Grants Commission, considered as covering the lecture hours furthermore. In addition, a concessionary motor vehicle permit had also been issued to her on 01 April 2011.

4.3 Operating Activities

In terms of paragraph 33 of Chapter 10 of the Establishments Code for University Grants Commission and Universities, the number of lecturers who had breached the agreements entered into in proceeding abroad for scholarships amounted to 21 and the amount due from them amounted to Rs.75,077,754 as at 31 August 2018.

In addition, the lecturers who had breached the bonds were allowed to pay the bonded amount by instalments. Even though, the recoverable bonded amount had been too much, opportunities had been given to pay them by smaller instalments such as Rs.20,000, Rs.30,000 and Rs.50,000 etc. irrespective of the recovery period by instalments and as such it had taken a long period to settle the bonded money.

4.4 Under-utilisation of Funds

The following observations are made.

- (a) A fixed deposit named as “Student Relief Fund” had been opened in the year 1989 and the balance of this account as at 31 December of the year under review amounted to Rs.1,333,567. As the objective of the establishment of this fund for what purposes of expenditure could be met therefrom etc. had not been determined, this fund had become underutilized since several years.
- (b) Balances of Rs.4,097,398 and Rs.4,249,691 had existed as at 31 December 2017 in 16 Scholarship Fund accounts and 21 gift fund accounts respectively which had been opened during the period 1980 and 2010 and the interest income earned by those funds amounted to Rs.4,910,648 and Rs.3,171,581 respectively. Only a sum of Rs.28,100 had been utilized from this interest income in 5 instances during the year under review for awarding scholarship and gifts and as such, it was observed that much money of these funds had become underutilized.
- (c) A balance of Rs.29,736,235 had existed in the University Research Grants Account as at 31 December 2017, out of which, a sum of Rs.18,032,876 had become underutilized since the year 2011.

4.5 Personnel Administration

The approved and actual academic and non-academic cadre of the University as at 31 December 2017 stood at 1762 and 1385 respectively. Accordingly, the number of vacancies amounted to 401 and the excess cadre was 24. The following observations are made in this connection.

- (i) The approved permanent academic staff as at the end of the year under review had been 781 and the actual cadre was 561, thus existing 220 vacancies. Only 37 of those vacancies had been filled by 30 July 2018 and action was being taken to recruit 91 persons but there were further vacancies of 92.
- (ii) The number of vacancies in the non-academic staff and the excess cadre amounted to 152 and 24 respectively. Three persons had been recruited to 2 posts outside the approved cadre. The approved cadre of Health Services Labourers amounted to 10 whereas the actual cadre was 25 and as such the excess staff had become 15. By 30 July 2018 recruitments had been made for 34 vacancies in the non-academic staff and action was being taken to recruit another 14 person but still there were 101 vacancies.

4.6 Vehicles Utilisation

The following observations are made.

- (a) A bus attached to the Faculty of Medicine, Ragama had not been operated since 26 May 2016 and action had not been taken to dispose of this vehicle or to get it repaired and used.
- (b) A bus belonging to the University had been referred to a private garage on 09 July 2017 for fixing front and back wind screen without calling for quotations. Even though, more than one year had passed, it had not been repaired and handed back. The physical verification observed that this vehicle had been parked outside the garage, resulting in being decayed.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

Every public entity should act in accordance with the Circular No.NP/SP/SDG/17 dated 14 August 2017, issued by the Secretary to the Ministry of National Policies and Economic Affairs and the 2030 'Agenda' of the United Nations on Sustainable Development. Nevertheless, the University of Kelaniya was not aware about how to act in respect of functions within the purview of its scope. However, the Vice Chancellor informed me that various programs and actions had been taken to reach Sustainable Development Goals through 5 projects viz, waste management, water management, energy management, habitat management and training programs during the period 2014 to 2018.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though, the annual financial statements should be purchased to the Auditor General within 60 days after the closure of the year of accounts in terms of paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the University had been presented on 09 May 2018, after a delay of 69 days.

6.2 Procurement and Contract Process

6.2.1 Procurements

The following observations are made.

- (a) Even though, a sum of Rs.1,610,000 had been paid in the year 2017 for the supply of curtains to two offices in the University, an agreement in terms of guideline 8.9.1 (b) of the government procurement guidelines had not been signed therefor.
- (b) Preparation of cost estimates, obtaining relevant approval, referring to Procurement and Technical Evaluation Committees for this procurement should have been performed at the beginning of the procurement process. However, deviating from this procedure, recommendations of the Procurement Committee and the Technical Evaluation Committees and the approval of the Board of Control had been obtained after being selected the supplier.
- (c) Even though, it was stated that the bids would be called for from the registered suppliers of the University for the above procurement it was observed that the supplier to whom this contract had been awarded was not a registered supplier of the University for the above purpose.

6.2.2 Weaknesses in contract administration

The contract for the construction of the Information and Communication Technology Centre, the contract value of which amounted to Rs.157,593,998 had been awarded to the State Engineering Corporation and its works had been commenced on 01 September 2016. Even though, it should have been completed by 30 August 2018, but its financial progress and the physical progress had been only 48 per cent and 40 per cent as at 30 June 2018.

7. Systems and Controls

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

Areas of Systems and Controls

Observations

Areas of Systems and Controls	Observations
(a) Fixed Assets	Non-accounting of fair value of assets being revaluated and non-updating the register of fixed assets having being eliminated the value of disposed assets from books.
(b) Research Activities	Underutilisation of funds allocated for research works.
(c) Distance and continuous Education Centre	Delays in conducting examinations and releasing results.
(d) Conducting Lectures	Non-maintenance of students attendance register properly.
(e) Recruitment of staff	Non-taking action to fill the staff vacancies promptly.