

Sabaragamuwa University of Sri Lanka – 2017

The audit of financial statements of the Sabaragamuwa University of Sri Lanka 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 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 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 furnished to the Vice Chancellor of the University on 31 July 2018.

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 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 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 III 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 Basic 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 effect 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 Sabaragamuwa University of Sri Lanka 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. Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Sri Lanka Public Sector Accounting Standard – 02

The following non-compliances were observed.

- (a) Loans of Rs.57,777,625 received for the payment of loans and paid to employees from the University Provident Fund in the year under review had not been shown in the cash flow statement under operating activities.
- (b) Payment of interest on lease instalments amounting to Rs.1,579,262 in the year under review had not been shown in the cash flow statements under financing activities.
- (c) A sum of Rs.14,673,898 paid for the purchase of property, plant and equipment of the Open and Distance Education Centre during the year under review had been shown as Rs.18,660,750 under investing activities and as such cash outflows had been overstated by Rs.3,986,852.
- (d) Fixed Deposits totalling Rs.11,970,474 withdrawn during the year under review had been shown in the cash flow statement under investing activities as Rs.11,062,216 and as such the cash flow generated from investing activities had been understated by Rs.908,258.
- (e) In the calculation of the value of cash and cash equipment at the beginning of the period in the cash flow statement, the opening cash balance of Rs.262,500 in the Faculty of Post Graduate Studies had not been adjusted.

2.2.2 Accounting Policies

Even though, it was stated under the accounting policies that financial statements were prepared on accrual basis, a sum of Rs.126,054 received in the year under review relating to the previous year from the farm of the Faculty of Agriculture had been brought to accounts as revenue of the year under review. Revenue of Rs.167,700 received in the year 2018, relating to the year under review had not been brought to accounts as revenue of the year under review and as such, it was observed that revenue of the farm had been brought to accounts on cash basis.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Provisions for a sum of Rs.5,545,307 payable to the Security Services of the University relating to the year under review had not been made.
- (b) A sum of Rs.2,513,700 received for the Mahapola Scholarships in the year under review, relating to the previous year had been brought to accounts as income of the year under review.
- (c) Even though, the Mahapola Scholarship revenue receivable from the Mahapola Scholarship Trust Fund as at end of the year under review amounted to Rs.1,830,150, only a sum of Rs.1,168,250 had been brought to accounts and as such Mahapola Scholarship revenue receivable had been under accounted by Rs.661,900.
- (d) A sum of Rs.3,042,800 received for bursaries relating to the year 2018 itself had been brought to accounts as bursaries income of the year under review.
- (e) A total sum of Rs.389,218 incurred for the operating expenses of the Institute of Post Graduate Studies during the months of January and February of the year under review, had been brought to accounts as an expense of the previous year, instead of bringing to account as expenses of the year under review.
- (f) According to the financial statements, the bursaries income relating to the year under review was stated as Rs.49,933,300 but the bursaries expenses had been stated as Rs.49,761,500 by understating a sum of Rs.171,800.

2.2.4 Unreconciled Control Accounts

Even though, a sum of Rs.27,916,036 had been shown as payable to the Open and Distance Education Centre of the University in the financial statements of the University, according to the financial statements of the Open and Distance Education Centre, a sum of Rs.25,311,637 had been shown as receivable from the University as at the end of the year under review. Accordingly, a difference of Rs.2,604,399 was observed between those balances.

2.2.5 Lack of Evidence for Audit

Evidence stated against the following items of accounts was not made available to audit.

Item of Account -----	Value -----	Evidence not made available -----
Lands	Rs. 57,295,890	Certificate of ownership/ transfer orders
Buildings	3,118,583,084	} (i) Registers of fixed assets. (ii) Board of Survey reports.
Water Purification Unit	9,113,148	
Office and Teaching equipment	751,681,342	
Computers and accessories	303,809,165	
Library books and periodicals	143,701,291	
Motor vehicles	130,427,226	
Communication equipment	34,415,008	
Cloaks	3,149,512	
Other equipment	155,939,913	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though, a mobilisation advance of Rs.1,179,621 had been paid to a contractor in the year 2007 for the construction of a building belonged to the Faculty of Agriculture, the contractor had abandoned that task but the advance paid had not been recovered even by June 2018.
- (b) A sum of Rs.656,662 relating to 21 loan balances of 12 employees brought forward for the periods 01 to 18 years had not been recovered even by May 2018 and 4 sundry debtor balances totalling Rs.105,525 brought forward from more than 6 years had also not been recovered even by June 2018.
- (c) Bursaries of Rs.27,009,550 given by the University Grants Commission, until the receipt of provisions from the Mahapola Scholarship Trust Fund for 4 academic years had subsequently been received from the Mahapola Trust Fund. Action had not been taken to settle such bursaries to the University Grants Commission even by May 2018.
- (d) Eight balances totalling Rs.69,617,688 payable to the contractors due to non-completion of works in final bills relating to the construction contracts had been brought forward prior to the year 2015, without being settled.

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

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Section 112(1) of the Universities Act No.16 of 1978.	Due to non-appointment of a lecturer for the post of Senior Treasurer to the students Council of the Faculty of Social Science and Languages for the academic year 2015/2016, the Council had not become an active position.
(b) Establishments code for the University Grants Commission and the Higher Educational Institutions.	
(i) Section 18.12.1(1) of Chapter III	It was informed that a names of index should be maintained in respect of persons who had been dismissed from service or terminated in view of disciplinary grounds in the probation period, enabling to ensure that they are not appointed to the University Grants Commission or higher Educational Institutions again. However, action had not been taken accordingly.
(ii) Section 7.6 of Chapter V	A sum of Rs.68,943,858 recoverable from 14 officers who had proceeded abroad being obtained study leave from 2000 to 2017 and breached the bonds as they had not reported back for duties had not been recovered even by May 2018.
(iii) Section 7.8 of Chapter V	In order to prevent from obtaining employment by a lecturer who had been dismissed from service again in a public Corporation or a Statutory Board, a notice, stating that such a lecturer had vacated his service should be issued by the University and informed the Secretary to the Public Administration and the Director of the Department of Public Enterprises of the Treasury about it. As action had not been taken so, a lecturers who had been dismissed from service in the year 2007 had been appointed as a lecturer in the University of Sri Jayawardenapura.

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| (iv) Section 3.1 of Chapter XX | Without establishing daily in and out, a total sum of Rs.468,595,919 had been paid as salaries and allowances to 259 persons of academic staff during the year under review. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 571(1), (2) and (3) | Necessary action had not been taken to settle 129 lapsed deposits consisting of tender deposits, retention money, bid securities and sundry deposits totalling Rs.19,791,816 brought forward from 2005 to 2014. |
| (d) Sections 7.1 and 7.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003. | Operating manuals, covering main operating functions of the University had not been prepared. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the University for the year 2017 had been a deficit of Rs.90,808,260 as against the surplus of Rs.26,902,016 for the preceding year thus indicating a deterioration of Rs.117,710,276 in the financial results of the year 2017 as compared with the year 2016. Increase of employees remuneration and contractual services by Rs.79,786,033 and Rs.34,230,134 respectively had mainly attributed to this deterioration.

In the analysis of financial results of the year under review and the previous 4 years, the deficit of Rs.47,093,974 in the year 2013 had decreased to Rs.22,927,315 by the year 2015 with fluctuations. However, the financial results of the year 2016 had improved to a surplus of Rs.39,224,605 but it had decreased up to a deficit of Rs.90,808,260 in the year 2017. However, after being re-adjusted the employees remuneration and depreciation on non-current assets to the financial results, the contribution of Rs.565,589,804 in the year 2013 had increased continuously up to Rs.1,097,115,850 by 2017.

3.2 Analytical Financial Review

According to the statement of financial position presented for the year under review, the current ratio in the years 2017 and 2016 had been 0.38 and 0.67 respectively and 26 per cent of current assets in the year under review had represented cash and cash equivalent and as such a considerable amount of assets had tied up with liquid assets.

4. Operating Review

4.1 Performance

4.1.1 Planning

An action plan for the year 2017 had not been prepared by the University in terms of paragraph 4 of the Public Finance Circular No.01/2014 of 17 February 2014 and the performance reports to measure the physical progress had also not been prepared. However, an action plan only for the Finance Division of the University had been prepared.

4.1.2 Operations and Review

The following observations are made.

- (a) The number of students proposed to be registered during the past 4 academic years amounted to 4,910, out of which only 4,489 students had been registered. Accordingly, 421 students or 8.57 per cent of the proposed students had not been registered.
- (b) During the 3 academic years of 2009/2010, 2010/2011 and 2011/2012, 2,888 students had been registered and 2,427 thereof had completed the degrees. Accordingly, 16 per cent of the registered students had failed to complete the degree.
- (c) During the 5 academic years from 2011/2012 to 2015/2016, 5,255 students had been registered to the 5 faculties of the University and it was observed that 104 students or 02 per cent of them had dropped out from degree courses during the first year itself.
- (d) Examinations of the first, second and 3rd years for 185 students registered last time in the year 2011 for the Bachelor of Arts (General) Degree Course (External) had been held in July 2013, May 2015 and June and July 2017 respectively. Even though, 6 years had elapsed after being enrolled students, action had not been taken to complete the 3 year degree course even by May 2018. Further, the number of students sat for the final year examination was only 101.
- (e) The academic cost of 3,945 students during the year under review, amounted to Rs.1,258,777,399 and the cost per student amounted to Rs.319,082. The academic cost of 3,758 students in the previous year amounted to Rs.1,117,968,314 whereas the cost per student was Rs.297,490. Accordingly, the cost per student in the year under review had increased by Rs.21,592 as compared with that of the previous year.

4.2 Management Activities

The following observations are made.

- (a) One hundred and thirty Desktop Computers valued at Rs.15,964,000 ordered by the University had been supplied by the supplier, non-compliance with the specifications and the University had taken over those computers without being tested the computers. Accordingly, the supplier had breached a condition of the agreement without being supplied the computers in accordance with specification but without being enchased the performance bond of Rs.1,631,288 and taking any other course of action, a sum of Rs.13,569,400 had been paid to the contractor subject to a discount of 5 per cent of the contract value. The Vice Chancellor informed the audit as a reply that it was decided to take legal action in accordance with the report of the inquiry conducted in the regard.
- (b) Waste of the University had been disposed of without being separated as decomposed waste and indigestible waste and about 2 tons of waste so disposed daily had been discharged to the nonpareil government land since January 2015. Those impurities had been spread out to many places of the forest and as such it was observed that it would cause to environmental pollution and harmful to wildlife as well.
- (c) Even though, it was revealed that judicial action had been taken in respect of the financial discrepancy of Rs.189,303 in the Faculty of Agriculture brought forward prior to the year 2008, information in this regard was not made available to audit.

4.3 Under-utilisation of Funds

The balance of Rs.1,809,885 relating to 4 funds belonging to the University had remained idle for periods ranging from 3 to 7 years without being utilized for the intended purposes.

4.4 Idle and Under-utilized Assets

The following observations are made.

- (a) Even though, goods and equipment valued at Rs.2,725,000 had been given to the University in the year 2016 from the Higher Education for 21st century project for the establishment of out Bound Training Centre related to the Faculty of Applied Sciences, such equipment had not been utilized even up to May 2018 as infrastructure facilities and designs had not been prepared therein. Furthermore, sports goods, office equipment and library books valued at Rs.1,262,584 given by that project to the University in the year 2013, 2014, 2015 and 2016 had been stored in the Operating Technology Services Centre (OTS) which was closed now without being utilized even by May 2018.

- (b) The offset printing machine available in the University had been inoperative since December 2015 due to being eroded its spairs. Without getting it repaired, the entire press had been closed down and the printing affairs of the University had got performed by the private sector during the year under review and the previous year by incurring a sum of Rs.5,509,287. Three employees who had been trained for printing activities had been attached to another units and that printing press and the consumable materials valued at Rs.499,955 existed therein had remained idle even by May 2018.
- (c) Even though, the staff of the Ayurvedic Medical Centre of the University had made requests to build toilets attached to the Medical Centre building, the toilet had been put up by incurring an expenditure of Rs.530,872, outside the medical centre building and as a result, it had become idle since May 2017.

4.5 Personnel Administration

The following observations are made.

- (a) Vacancies of 141 posts had existed as at 31 December 2017 in the academic staff comprising of 76 posts out of 287 permanent professors and lecturers posts, 30 posts out of 51 approved temporary lecturers posts, 35 posts out of 83 other temporary academic staff posts. Due to the existence of these vacancies in the academic staff, a sum of Rs.22,439,891 had been paid as visiting lecturers fees during the year under review for obtaining the service of visiting lecturers.
- (b) Vacancies of 171 had existed as at 31 December 2017 comprising of 19 administrative posts, 8 posts of academic assistants and 144 posts of non-academic staff. Due to the existence of those vacancies, a sum of Rs.24,298,614 had to be paid as holiday pay and overtime pay during the year under review.
- (c) The cost per employee in the academic staff of the University in the year 2016 amounted to Rs.2,308,358 and it had been Rs.2,352,446 in the year under review thereby increasing the cost per employee by Rs.44,088. The cost per employee in the non-academic staff amounted to Rs.785,632 in the year 2016 whereas it was Rs.902,604 in the year under review, thereby increasing the cost per employee by Rs.116,972.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

Every public entity should act in accordance with the 2030 “Agenda” of the United Nations on Sustainable Development, but Sabaragamuwa University of Sri Lanka was unaware about how to act in respect of functions under the purview of the scope of the University. Therefore, Sustainable Development Goals, targets, turning points to reach those targets and indicators to measure the achievement of such targets had not been identified.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Draft Annual Report along with the annual financial statements should be presented to the Auditor General within 60 days after the close of the financial year. However, the financial statements presented to the Auditor General on 17 May 2018 but a copy of the draft annual report had not been presented therewith.

6.2 Internal Audit

The post of the Senior Assistant Internal Auditor in the Internal Audit Division had fallen vacant since August of the year under review and recruitments had not been made for 2 posts of Audit Assistants. As such, it had been a hindrance to carry out the internal audit of the University being planned effectively.

6.3 Audit Committees

Even though, audit committees should be held at least once in 3 months in terms of Public Enterprises Circular No.55 of 14 December 2010, only 2 Committee meetings had been held during the year under review and no committee meetings were held from July 2017 to June 2018.

6.4 Procurements and Contract Process

6.4.1 Procurements

The following observations are made.

- (a) As a procurement time table had not been prepared in terms of guideline 4.2.2 of the government procurement guidelines, periods from 10 months to 13 months and 5 months had been taken for the procurement of computers and computer accessories, learning equipment and purchase of furniture for the students hostels respectively. Accordingly, procurement objectives were not achieved.
- (b) In terms of guideline 4.1.1 (c) of the government procurement guideline, it was stated that without a definite obligation, ensuring that the required funds were provided, a procurement function should not be commenced. However, as the financial provisions had not been made for the purchase of measurement equipment valued at Rs.42,550,000 for the Faculty of Geomatics in the year 2016 it had been purchased after being cancelled 3 procurement items valued at Rs.16,200,000 included in the Procurement Plan for the year 2017.

- (c) Even though, a sum of Rs.1,888,300 had been paid to a private entity in July 2017 for the completion of the register of fixed assets on behalf of the University within a period of 8 months at a total value of Rs.2,960,000, it had not been completed even by May 2018.

6.4.2 Weaknesses in Contract Administration

The following observations are made.

- (a) Action had not been taken to recover the demurrage charges of Rs.2,606,361 on the delay of supplying furniture and computer accessories for the students hostels in terms of supplies agreements.
- (b) As the Provincial Council approved rates had not been applied for the concreting of access road to the Farm of the Faculty of Agricultural Science Project, over estimate of Rs.199,071 for 2 items of the estimates and under estimate of Rs.11,990 for one item had been made, as such it was observed that the accurate estimates had not been prepared.

6.5 Budgetary Control

The estimates prepared for the revenue and expenditure of the Self-Financial Courses, had not been included in the budget of the University for the year under review. The revenue and expenditure of those courses in the year under review amounted to Rs.52.09 million and Rs.39.15 million respectively.

6.6 Tabling the Annual Reports

The annual report for the year 2016 had not been tabled in Parliament in terms of Section 110 of the Universities Act No.16 of 1978.

6.7 Unresolved audit paragraphs

The position of implementation of directives given by the Committee on Public Enterprises met on 09 August 2017 is given below.

- (a) Action had not been taken to enrol new group of students to the Bachelor of Arts (General) Degree (External) course with modifications even by May 2018.
- (b) Even though, it was directed to complete the defects existed in the sports ground and the pavilion of the University which had been constructed by incurring a sum of Rs.123,052,693 in the year 2014, action had not been taken to repair the sports ground by using the retention money amounting to Rs.5,156,160 even by May 2018.

7. **Systems and Controls**

Weaknesses in systems and controls observed in audit 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 controls.

Areas of systems and control	Observations
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(a) Accounting	(i) Income and expenditure assets and liabilities under/over accounted. (ii) Non-reconciliation of ledger account balances and registers.
(b) Assets Control	Assets being under- utilized.
(c) Human Resources Management	(i) Action not taken to fill the vacancies. (ii) Scheme of recruitment not prepared to protect transparency.
(d) Operations Control	Non-introduction of a control system to ensure the in and out of the security officers.
(e) Internal Audit	Non-rendition of half-yearly internal audit reports to the Auditor General.