

Institute of Technology University of Moratuwa -2017

The audit of financial statements of the Institute of Technology University of Moratuwa 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 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 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 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

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 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 Institute of Technology University of Moratuwa 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

a) Sri Lanka Accounting Sector Accounting Standards 02

- (i) As per the section 09, an investment normally qualifies as a cash or cash equivalent only when it has a maturity of three months or less from the date of acquisition only. But long term investment of Rs.19,082,110 as at 31 December 2017 had been included under the cash and cash equivalent in the cash flow statement. This methodology had been followed in the preceding year and though, had been informed that this method will be changed in the this year, action had not been taken to changed as informed.
- (ii) Eventhough the increase of payables as per the financial statement was Rs.6,906,266, in the cash flow statement mentioned that increase as Rs.6,930,751 therefore it was observed the difference of Rs.834,485.

b) Sri Lanka Accounting Sector Accounting Standards 07

In terms of section 65 of the standard useful life time of non-current assets had not been reviewed annually and hence, property plant and equipment costed Rs.19,046,962 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimation in accordance with the Sri Lanka Public Sector Accounting Standard No.03.

2.2.3 Accounting Deficiencies

The following observations are made.

- a) As per the information received for audit, eventhough Mahapola and Scholarships expenses for the year under review were Rs.4,150,150 and Rs.18,640,900 respectively, but as per the financial statements the expenses were Rs.4,910,000 and Rs.17,897,100 and therefore, Mahapola expenses was overstated by Rs.759,850, and scholarship expenses was understated by Rs.743,800 in the accounts.

- b) Office, Laboratory and Teaching equipments for a sum of Rs.14,427,810 and furniture for a sum of Rs.643,705 had been revalued on 30 November 2017 and depreciation on new revaluation value a sum of Rs.245,828 as on 31 December 2017 had been removed from the depreciation account and debited to revaluation adjustment accounts accordingly. As such depreciation value and revaluation reserve relevant to those assets had been understated by Rs.245,825.
- c) Even though, Office, Laboratory and Teaching equipments and furniture disposal loss of Rs.1,251,448 should be considered as operational expenses and should be written off against the profit, but the loss had been adjusted to the capital grant account. As such, the annual deficit and the year end capital grant balance had been understated by same amount.
- d) A sum of Rs.1,407,000 incurred for electricity supply for project premises in the institute had been shown as recurrent expenditure in the financial statements instead of capitalized to building value.
- e) Expenses incurred in 2017 for the replacement and Development Project in Diyagama Technology institute a sum of Rs.10,360,051 had been shown as a expense in the year instead of shown under works – in – progress.

2.2.4 Legal actions initiated by the institute and against to the institute

A legal action had been taken by the institute in the District court of Moratuwa against to an external institute and demand a compensation of Rs.05 million and an appeal had been filed by the defendant in the high court but had not been disclosed in the financial statements.

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

In terms of section No.45(2)(1)(xv) of the university Act, No.16 of 1978, it is lawful to invest any moneys belonging to the university in security or to place on fixed deposit in any bank approved by the commission. But a sum of Rs.955,030 provided for District Education Modernization Programme in 2009 had not been used for any investment activity and remained in the current account of the Technology Institute.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the end of the year had resulted in a deficit of Rs.42,448,648 as compared with the corresponding surplus of Rs.2,494,368 for the preceding year, thus indicating deterioration of Rs.44,943,016 in the deficit in the year under review as compared with the preceding year. Even though the Government grants received for recurrent expenditure in the year under review had increased by a sum of Rs.16,254,000, the increase of recurrent expenditure by a sum of Rs.69,767,960 had been the main reason for the above deterioration.

In the analysis of the financial results for the year under review and 05 preceding years, the deficit of Rs.3,510,686 in the year 2012,had further deteriorated to Rs.42,448,648 in 2017. However, After making adjustments for personnel emoluments and depreciation for property, and equipments, the contributions of Rs.60,521,335 in 2012 had improved to a sum of Rs.104,481,868 by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Performance and Review

The following observations are made.

- (a) Even though the average passing percentage of students in 09 academic sectors in second year examination result of the National Technology Diploma Programme held in 2017 was 83 per cent, passing percentage of Electronic, Marine, Polymer, Civil, Mechanical and Textile sector were 65,72,76,76,78 and 79 per cent respectively. As such, Examination results of such sector had not reached to the expected level.
- (b) Even though plans had been prepared to introduce new courses to the National Technology Diploma during the year under review, students had not been enrolled to those courses even upto 09 August 2018.
- (c) Even though funds amounting to Rs.100,000, Rs.100,000 and Rs.1,000,000 had been allocated to procure sports items in 2015, 2016 and 2017 respectively, no money had been utilized from the above allocation.
- (d) Even though had been planned to develop a Efficient and effective Management Information System to the institute during the year under review, no action had been taken to initiate even upto end of the year under review.

4.2 Underutilization of Funds

A sum of Rs.9,096,878, value of six funds as on 31 December 2017, had not been utilized for any activity and remained idely for a period from years 09 to 14 from the establishment of those funds.

4.3 Staff Administration

The approved cadre of the institute was 111 and actual cadre was 38 and accordingly there were 73 vacancies. Even though for filling of those vacancies 45 employees had been recruited on external temporary basis and work assignment basis, but there were still 28 vacancies remained. Approved non – academic cadre was 156 and actual staff was 76 and accordingly there were 80 vacancies. Even though for filling of those vacancies 20 employees had been recruited on external temporary basis and work assignment basis, but still there were 60 vacancies remained.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. The institute of Technology - University of Moratuwa had not been aware as to how to take measures relating to the activities under purview of their scope with respect to the year under review.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

In accordance with section 6.5.1 of Public Enterprise Circular No.PED/12 dated 02 June 2003, the financial statements should be furnished within 60 days after closure of the accounting year to the Auditor General. The financial statements for the year 2017 had been forwarded on 02 March 2018.

6. Systems and Controls

The deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls -----	Observations -----
(a) Accounting	Non compliance with public sector Accounting Standards.
(b) Assets Management	Not update fixed assets register.
(c) Funds Management	Not taking action to achieve establishment objectives of the funds.
(d) Staff Administration	Not recruitment make for vacant posts..