

University of Moratuwa - 2018

1.1 Qualified Opinion

The audit of financial statements of the University of Moratuwa for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements 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 provisions of the National Audit Act, No. 19 of 2018 and Section 108(1) of the Universities Act, No.16 of 1978. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the University of Moratuwa as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the University is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the University.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the University and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University has complied with applicable written law, or other general or special directions issued by the governing body of the University;
- Whether the University has performed according to its powers, functions and duties; and
- Whether the resources of the University had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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(a) A physical verification on library books shown in fixed assets had not been carried out since the year 2013. Since useful life of the non-current assets had not been reviewed annually as required by Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07,	Showing library books under non-current assets in final accounts has been discussed at the 139 th Monetary Committee and it has been recommended to show the library books in the final accounts as per Cost Model in terms of the Sri Lanka Public Sector	Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.

property, plant and equipment costing Rs.276,364,317 were further in use despite being fully depreciated as at 31 December 2018. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

Accounting Standard 07 while it was approved by the 457th Governing Council. Disclosures thereof have been made in No.17 under Accounting Policies. The accounting policy on depreciation of library books has not been changed.

- (b) The University had filed a case in the District Court of Moratuwa against an external entity claiming a compensation of Rs.5 million and the Defence of this case had made an appeal to the High Court in this connection. A disclosure thereof had not been made in terms of Section 100 of Sri Lanka Public Sector Accounting Standard 08.

Disclosures should be made in financial statements as per the Standard.

1.5.3 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The stock in the Maintenance Stores existed as at 31 December 2018 had not been verified and brought to account.	The value of stock in the Maintenance Stores existed as at 31 December 2018 will be brought to account in the year 2019.	In the verification of stock, the stock of sub-stores should also be included in the closing stock.

1.5.4 Lack of Evidence for Audit

The following observations are made.

Item	Amount	Evidence not made available	Comments of the Management	Recommendation
(a) Other receipts	Rs. 6,951,712	The schedule or relevant evidence in support of the net value of other receipts totalling Rs.6,951,712 shown under financial activities in the cash flow statement.	This is a total of net receipts pertaining to several ledger accounts and there is a practical issue of preparing a schedule therefor. However, necessary action will be taken in due course to prepare and submit a schedule for the said net receipts.	Future action should be taken to make available to audit, the evidence required to confirm the values in financial statements.

(b) Relevant lease agreements	-	The relevant lease agreements pertaining to the building given on monthly rental basis by the University to a private firm named Uni Consultancy functioned in the premises of the University.	At present, a sum of Rs.30,000 is being paid monthly to the University of Moratuwa by the UNIC institution and the letter dated 16 May 2015 sent to the Director of Uni Consultancy Services by the Works Engineer of University of Moratuwa has been presented to confirm the said payment.	Future action should be taken to make available to audit, the evidence required to confirm the values in financial statements.
(c) Money allocated for various works of the rehabilitation and improvements projects.	39,344,250	Files pertaining to the projects implemented.	Not replied.	Future action should be taken to make available to audit, the evidence required to confirm the values in financial statements.

1.6 Related Parties and Related Party Transactions not disclosed

Audit Observation	Comments of the Management	Recommendation
According to Articles of Association of the Uni Consultancy company established in the university premises, the Bursar and the Registrar of the University had been named as two members of the Governing Board.	Not replied.	Related Party Transactions should be disclosed.

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

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) F.R.21(b) of the Financial Regulations of the Democratic	In terms of the Financial Regulation, Projects or items of works each estimated to cost over Rs. 5,000,000 should be	Not replied.	Action should be taken in accordance with relevant laws and rules.

Socialist Republic of Sri Lanka	separately itemized and shown in the Estimates without being shown in the form of Block Provision. Nevertheless, sundry works amounting to Rs.42.06 million under the Rehabilitation and Improvement Project of the year 2018 had been shown as Block Provision in the Estimates.		
(b) State Accounts Circular No.842 of 19 December 1978	Even though a Register of Fixed Assets containing all details of fixed assets owned by the institution, should be maintained in terms of the circular, such a register was not made available to audit.	A Register of Fixed Assets is being maintained by the University.	A Register of Fixed Assets should be prepared and maintained in an updated manner.
(c) State Accounts Circular No.IAI/2002/02 of 28 November 2002	A separate Register of Fixed Assets in respect of computer accessories and software had not been maintained in terms of the circular.	Registers of assets are being maintained by all faculties, departments and divisions while the details of purchase, custody and disposal of these computer accessories and software are being updated in those registers of assets.	A register of assets should be maintained in terms of the relevant circular.
(d) Circular Letter No.05/2017 of the University Grants Commission	It was observed that action has been taken contrary to the instructions in paragraph (3) of Circular Letter No.05/2017 of the University Grants Commission in allocating funds for capital projects of the University through Annual Budget and the process of allocating funds for capital projects has not been carried out under a proper supervision and in a transparent manner.	Not replied.	Action should be taken as per relevant circulars.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs.98,671,571 as compared with the corresponding deficit of Rs.58,682,610 in the preceding year, thus indicating a deterioration of Rs.39,988,961 in the financial result. Even though the revenue of the year had increased by Rs.517,089,535 the increase of expenditure of the year by Rs.557,078,496 had mainly attributed to the said deterioration.

2.2 Trend Analysis of Major Income and Expenditure Items

The interest income on investments and wages of the staff of the year under review had increased by 69 per cent and 23 per cent respectively as compared to the year 2017.

2.3 Ratio Analysis

(a) Current Assets Ratio

The current ratio of the preceding year was 0.38 and it stood at 0.33 in the current year.

(b) Quick Assets Ratio

The quick assets ratio of the preceding year was 0.35 and that ratio in the current year stood at 0.31.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) A sum of Rs.61,422,362 was recoverable as at 31 December 2018 from 32 lecturers who proceeded abroad on study leave and breached the relevant agreements and bonds. Nevertheless, no action had been taken as at 31 December of the	Action as per the Annexure presented, has been taken to recover the dues from the officers who breached the relevant agreements and bonds.	Action should be taken to recover the dues from the officers who breached the relevant agreements and bonds.

year under review to recover a sum of Rs.1,473,002 older than 10 years and which were recoverable from 06 officers and a sum of Rs.29,003,867 recoverable from 18 officers. Even though it had been referred to recover a total sum of Rs.20,808,390 pertaining to 08 officers from the University Provident Fund, adequate steps had not been taken to recover it despite a lapse of one year.

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| <p>(b) According to case filed for the recovery of Rs.4,093,176 to be recovered from a lecturer who had obtained foreign study leave and breached the agreement, from the guarantors, the judgement had been delivered that the guarantors were not liable and the case was dismissed as the agreement on guarantors was signed before signing the main Agreement and the university has failed to prove the accuracy of value written in figures. The money recoverable to the University could not be recovered as the responsible officers in the University had not taken action responsibly.</p> | <p>The responsible officers who were employed in the University at the time of signing the said agreement have left the service in the University of Moratuwa and the University has failed to take a decision in this connection.</p> | <p>Action should be taken responsibly in signing agreements.</p> |
| <p>(c) Even though the Committee on Public Enterprises has directed the University to obtain a cabinet approval to form a legal frame for the Uni Consultancy Services Company, it had not been so done even by 16 May 2019, the date of audit.</p> | <p>The Agreement to be signed by the University of Moratuwa with the UNIC company has been signed on 16 May 2019, but no action has been taken as yet to obtain the cabinet approval.</p> | <p>Action should be taken to obtain the cabinet approval.</p> |

3.2 Transactions of Contentious Nature

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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(a) The Lease Line Access facility to the University had been obtained from a private firm named "LEARN" where the Deputy Chairman of the University Grants Commission and certain University lecturers hold the membership, without carrying out a proper evaluation on the possibility of obtaining such a facility from the Sri Lanka Telecom. Sums amounting to Rs.33,430,467, Rs.41,650,975, Rs.47,215,767 and Rs. 34,188,337 had been paid therefor to the relevant Company from the year 2016 to 2018 respectively.	Services and facilities required for education purposes were not available in the Lease Line facility provided by the Sri Lanka Telecom while the said facility was obtained from "LEARN".	Action should be taken to obtain the Lease Line Access facility directly from the Sri Lanka Telecom.
(b) According to the agreement on intellectual property entered into by the University and the Codegen International (Pvt) Ltd, the University should exercise the intellectual property rights as per the Intellectual Property Policy approved by the University. On the contrary, an agreement had been entered into with the Codegen International (Pvt) Ltd without any financial benefit to the University.	This agreement has been formulated in compliance with the Intellectual Property Policy of the University of Moratuwa and entered into with the approval of the Governing Council.	The University should exercise the intellectual property rights and action should be taken to consider whether entering into an agreement is favourable to the University.
(c) Chairs and tables required for the new cafeteria have been obtained on hire basis deviating from the process of Government Procurement Guidelines and as such, a financial loss of Rs.745,920 was sustained by the University. Even though adequate evidence to exonerate the officers accused was not made available in the preliminary investigation conducted in this connection, all of them had been exonerated by the Decision 431 dated 04 January 2017 and Decision 453 dated 10 October 2018 of the Governing Council.	It is agreed.	Action should be taken in terms of existing laws and rules.

3.3 Idle or Underutilized Property, Plant and Equipment

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The Digital Rapid Prototyping and Manufacturing System Viper valued at Rs.40 million which received as a donation to the Department of Engineering Design of the University of Moratuwa with the financial contribution of Rs.15 million from the Ministry of Industry Development and Rs.25 million from the National Science Foundation, had been underutilized from the year 2015 to 11 January 2019, the date of audit. Further, maintenance work has not been carried out in due time, thus the machine had become inoperative.	A sum of Rs.1,200,000 was required only as the maintenance cost of the machine while money was needed for making provision in respect of the salaries of employees in the Design Centre. The total earnings of 5 years was adequate enough only for maintenance work. It was informed that, no additional income received for promotion campaign, the administration of the University had closed down the Engineering Design Centre and the Board of Management of the Engineering Design Centre of the University of Moratuwa and Engineering Faculties is subject to relevant procedures on the recommendation of the Council with the approval of Governing Council.	Action should be taken to operate the Digital Rapid Prototyping and Manufacturing System Viper and planned the future action after consulting a relevant instructor and further, the institution which granted the relevant machine should be made aware of these matters.
(b) The building of Architecture lecture halls constructed at an estimated cost of Rs.143.9 million provided under Government grants of the year 2014 had not been used even by 28 February 2019, the date of audit.	The buildings constructed could not be used as the essential items such as interior partitioning ,ceilings, toilets , electricity and water supplies were not completed due to lack of financial provision.	Action should be taken to use the building of Architecture lecture halls for conducting lectures.
(c) A sum of Rs.1.3 million had been paid as at the end of the year under review for the project of installing a bio gas system commenced in the year 2016 for manufacturing bio gas from waste disposed by the canteens of the University and for using the said gas for cooking in canteens. Nevertheless, it still remained idle due to defects in constructions.	It has been proposed to improve the bio gas system with a view to enhancing the capacity in future.	Action should be taken to create the bio gas system in a useful manner.

3.4 Delays in Projects or Capital Works

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The construction of the multipurpose building of Engineering Faculty of which the original estimate amounted to Rs.159.7 million should have been commenced in the year 2014 and completed by 25 February 2015. The contract had been handed over to the University on 25 December 2016 despite the remaining works to be completed. Even though a sum of Rs.168.2 million had already been paid for the building, the building could not be used due to the failure in completing the said remaining works.	The approved financial provision was not adequate enough for the construction of proposed buildings and relevant procurements while changes have also been made to the said projects and scope. The buildings constructed could not be used as the essential items such as interior partitioning ,ceilings, toilets , electricity and water supplies were not completed due to lack of financial provision. Approval of the Cabinet of Ministers has been received on 21 January 2019 for remaining works and it has also been instructed to follow the open competitive bidding for obtaining consultancy services. Accordingly, procurement process has already been commenced for providing consultancy services.	Action should be taken to complete the remaining works and make use of the building.
(b) Even though a sum of Rs.3,093,310 had been spent on the contract for landscaping in front of the building of Technical Engineering up to the Day-care Centre, the landscaping work had not been completed even by 31 May 2019, the date of audit.	The Stage I of this Project has been carried out and its future activities are scheduled to be carried out by Stage II.	Money should be spent as to complete the said activity.
(c) Even though a sum of Rs.30 million has been spent on the development of play grounds in the year 2013, the relevant works have not been properly completed as yet. As such, external play grounds had to be hired for the conduct of trainings and competitions.	As the external Basket Ball court has not yet been completed, the University has taken action to provide training sessions to the players as required.	Money should be spent productively in order to achieve the relevant objective.

3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
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<p>Even though there were knowledgeable persons in the University for the preparation of bid documents on Design and Build basis required for the construction of Material Science and Engineering Department Building, the said service had been procured from an external institution by spending Rs.752,000 contrary to the instructions in Procurement Guidelines.</p>	<p>Such consultancy services are provided as per policies approved by the University staff and it was difficult to invite to provide services for projects implemented in the institutions not in compliance with the said policies.</p>	<p>Action should be taken in accordance with the instructions in Procurement Guidelines.</p>

3.6 Human Resource Management

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) There were 426 vacancies in the academic staff of the University as at 31 December of the year under review and 101 persons had been recruited for those vacancies on contract basis. Visiting lecturers had been recruited for the 224 vacancies existed in the posts of lecturer under the academic staff and a sum of Rs.36,872,411 had been paid in this connection during the year 2018.</p> <p>(b) The approved cadre and actual cadre of the non-academic staff of the University as at 31 December 2018 stood at 878 and 710 respectively, thus 168 vacancies existed. Even though 105 persons had been recruited for those vacancies on contract basis, 44 vacancies existed further in the posts of Technical Officer in 21 Departments of the University.</p>	<p>Action will be taken to fill the vacancies of academic and non-academic assistants as per the requests made by respective Divisional Heads and to fill the vacancies in non-academic staff from the lists received from the Ministry of Higher Education.</p>	<p>Action should be taken to fill the vacancies without delay.</p> <p>Action should be taken to fill the vacancies without delay.</p>

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
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(a) In carrying out the operating activities of the University with the intention of being the most globally recognized Knowledge Enterprise, the expected place of Webometrics ranking of World Universities for the year 2018 had been 2200 while the place secured was 2713. According to QS Asia Ranking, the expected place for the year 2018 had been 250 while the place secured was 291-300.	The following steps have been taken in the year 2018 to improve the ranking of the University of Moratuwa under the ranking of World Universities.	Action should be taken to stress the necessity of increasing the users of the web site of the University.
(b) According to the Action Plan of the year under review, even though number of local and foreign students of the University to be achieved the expected level had been 400 and 25 respectively, only 108 local students and one foreign student had conducted researches.	Steps have been taken to achieve the level of conducting researches by local and foreign students as per the Action Plan and it is expected to implement new programmes in due course to encourage local and foreign students for conducting researches.	Arrangements should be made to encourage the students for conducting researches.
(c) According to the Action Plan, it was expected to increase the number of research journals published during the year under review by 281, the number of researches presented in conferences/seminars up to 765 and increase the number of patents obtained since the year 2010 up to 30. Nevertheless, the level of achievement was 26, 55 and 05 respectively representing a minimum level.	The document which shows the number of patents already obtained by the University of Moratuwa has been submitted.	Action should be taken to improve the contribution of researches.

4.2 Procurement Plan

Audit Observation	Comments of the Management	Recommendation
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Nine contracts valued at Rs.12.8 million which did not included in the Procurement Plan of the year under review had been implemented in the year while 37 contracts valued at Rs.41.17 million which were planned to be implemented had not been implemented.	Most of the time, construction projects and rehabilitation and improvements projects are implemented during several financial years. If the entire capital provision made in respect of the University for a year is released, the cost estimate /contract sum for a certain project can be allocated for the said project. However, these projects are being implemented during several years, thus it could be shown in the procurement plans of several years.	The plan should be prepared by identifying the projects that can be implemented during the year.

4.3 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
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Every Government Institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations and even though the University had been aware of the functions that come under its scope pertaining to the year under review, the manner of implementing the functions had not been included in the Action Plan.	Action has been taken in terms of circulars.	The relevant activities should be included in the Action Plan of the year.