

## **University of Vocational Technology – 2018**

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### **1.1 Opinion**

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The audit of financial statements of the University of Vocational Technology 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 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 provisions of the National Audit Act, No. 19 of 2018 and Section 47(2) of the University of Vocational Technology Act, No. 31 of 2008. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial position of the University as at 31 December 2018 and of its financial performance and its cash flows for the year then ended give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Opinion**

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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**

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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

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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

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### 1.5.1 Internal Control over the Preparation of Financial Statements

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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

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<b>Non Compliance with the reference to particular Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>In terms of Paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07, the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date. Nevertheless, action in terms of the Standard had not been taken regarding the fully depreciated assets owned by the University costing Rs.45.10 million as at 31 December of the year under review.</p>	<p>In terms of the Sri Lanka Public Sector Accounting Standard 07, all assets fully depreciated as at 31 December 2018 were submitted to the relevant committees and their useful life was annually analyzed while in case of any difference in estimates, those errors have been revised in terms of the Sri Lanka Public Sector Accounting Standard 03.</p>	<p>Action should be taken in terms of Sri Lanka Public Sector Accounting Standards.</p>

### 1.5.3 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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A sum of Rs.1,831,091 was amortized in respect of assets purchased from the Fund of University in the year under review and as such, the profit of the year under review had been overstated by a similar amount.	The fixed assets purchased from the Fund of University have also been amortized with the intention of preventing the false image reflected as a result of effect on the surplus or deficit of the year. The said accounting policy is being implemented under the approval of the Board of Governors.	Action should be taken in terms of Public Sector Accounting Standards.

### 1.5.4 Unauthorized Transactions

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<b>Description of Unauthorized Transactions</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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A sum of Rs.335,200 had been paid to 39 lecturers in respect of the duties performed by internal lecturers of the University of Vocational Technology during the weekends in the year 2018 without a proper approval and based on the Circular No.1/2015 of 22 January 2015 issued by the University Grants Commission on the charges and travelling expenses for visiting lecturers.	The Additional Secretary of the Ministry of Skills Development and Vocational Training has informed to obtain the approval of the Department of Management Services in respect of the said payments. Accordingly, a letter has been sent to the Department of Management Services on 30 April 2019 to obtain the approval while no reply has been received as yet.	Action should be taken to obtain the approval of parties concerned.

### 1.6 Accounts Receivable and Payable

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#### 1.6.1 Payables

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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Action in terms of Financial Regulation 571 had not been taken on retention money totalling Rs.17,504,991.	The sum of Rs.17.5 million was not a deposit but retention money of suppliers.	Action should be taken in terms of Financial Regulations.

**1.7 Non-compliances with Laws, Rules, Regulations, Management Decisions etc.**

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The following observations are made.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Office Circular No.3(01) of 14 March 2016 of the University of Vocational Technology	Even though officers of the staff should be given the Government quarters only for a period of 05 years, 02 officers had been given the Government quarters contrary to the said provision.	One officer has been already informed to vacate the quarters of the University.	Action should be taken in terms of the Office Circular.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka Paragraphs 1.3 and 1.4.1 of Chapter XXX	Even though the permission of the Secretary to the Ministry is required before an officer may undertake for a fee any work outside his normal official duties, contrary to that, three internal lecturers who were appointed to the permanent posts in the University of Vocational Technology had conducted lectures in the University College of Ratmalana during and after the duty hours of week days without any approval.	Action has been taken to conduct a preliminary investigation to facilitate a formal disciplinary inquiry for the confirmation of facts included in the audit query.	Action should be taken in terms of the Establishments Code.
(c) Public Finance Circular No.2015/2 of 15 July 2015 and Circular No.2018/01 of 18 March 2018 on	Action had not been taken even up to the end of the year under review to dispose the motor vehicle owned by the University and which was registered in	I inform that the documents pertaining to the cancellation of registration of the motor vehicle has been handed over already and after the completion of the said	Action should be taken in terms of the Circular.

Asset Management	the year 1995 and withdraw from normal use.	purpose, action will be taken to hand over this motor vehicle for the projects and practical activities of students.
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**2. Financial Review**  
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**2.1 Financial Results**  
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The operating result for the year under review was a surplus of Rs. 10,632,874 as against the deficit of Rs. 3,825,746 for the preceding year, thus indicating an improvement of Rs. 14,458,620 in the financial result. Even though the total operating expenditure had increased by Rs. 40,584,009, the increase in recurrent grants, other income, income from degree courses and deferred income by Rs. 50,422, 883 had been the main reasons for the said improvement.

**3. Operating Review**  
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**3.1 Operating Inefficiencies**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments of the Management</b> -----	<b>Recommendation</b> -----
(a) Even though it had been planned to issue the results of examinations conducted by the University within 03 months, results of 07 courses out of the examinations conducted during the year under review had not been issued by 05 November 2018, the date of audit despite a lapse of 03 months.	Even though the relevant results could not be issued within 03 months, action had already been taken by the Department of Study to issue all the results within 03 months as compared with the issuing results of preceding years. It is monitored by the Faculty Board.	Action should be taken to issue the results without delay.
(b) Even though marking of answer scripts of examinations conducted should be done and marks given within 06 weeks since the conduct of examination, a period ranging from 01 month to 06 months had elapsed in taking over the answer scripts for marking. It was further observed that a period ranging from 02 months to 07 months had elapsed in marking and returning them.	Even though the relevant results could not be issued within 03 months, action had already been taken by the Department of Study to issue all the results within 03 months as compared with the issuing results of preceding years. It is monitored by the Faculty Board.	Answer scripts should be marked within the due period for the issue of results without delay.

### 3.2 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
An expenditure of Rs.291,969 had been incurred under social responsibilities during the year under review without specifically identifying the social responsibilities to be performed by the University.	The relevant expenditure has been incurred by utilizing the earnings (Rs.36.5 million) of the University and there was no other Expenditure Head in respect of the welfare of employees in the University.	Approval should be obtained for incurring expenditure from budgeted provision.

### 3.3 Procurement Management

Audit Observation	Comments of the Management	Recommendation
According to the instructions of Circular No.SP/SB/07/15 of 25 September 2015, the functions, seminars, workshops and other programmes in State sector should be organized to reap maximum benefits at minimum cost. Nevertheless, a sum of Rs. 02 million had been spent on 50 officers for conducting a two day programme on Capacity Development at a Hotel outside Colombo in October of the year under review.	This programme was conducted with a view to disseminating the knowledge on administrative affairs and as the Miloda Academy is attached to the Treasury, no competitive bidding procedure was carried out.	Action should be taken in terms of circular instructions.

### 3.4 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
(a) In the absorption of the staff of the National Institute of Technical Education of Sri Lanka to the University of Vocational Technology on 12 October 2012, ten officers of the academic staff who have not acquired the qualifications had been recruited to the posts subject to acquisition of qualifications and under the personal to holder basis. Nevertheless, 06 officers of the above had not acquired the necessary qualifications even as at 31 May 2019.	Two persons have already acquired the specified qualifications and have been absorbed to the relevant post in a proper manner. Action is being taken to make arrangements in respect of other officers as well.	Qualifications should be acquired.

- (b) In terms of Section 31(2) of the University Act, every appointment to a non-academic post shall in the first instance, be for a probationary period of 03 years and the Management should take action to conduct Efficiency Bar Examinations once a year or as required in accordance with the Scheme of Recruitment to confirm the said appointment. Nevertheless, 10 officers in the non-academic staff who were serving without being confirmed in the service despite a lapse of 03 years, had not acquired the qualifications to confirm in the service.
- Further, action will be taken to properly conduct these Efficiency Bar examinations once in every year in future.
- Efficiency Bar examinations should be conducted in an appropriate manner as per the Scheme of Recruitment.