

University College of Matara - 2018

1.1 Qualified Opinion

The audit of the financial statements of the University College of Matara for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of changes in equity and statement of changes in net assets and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, 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 Finance Act No. 38 of 1971. 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 accompanying financial statements give a true and fair view of the financial position of the University College of Matara as at 31 December 2018, and of its financial performance and its 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 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 determine 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 College's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the University College or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the University College's financial reporting process.

As per Sub Section 16 (1) of the National Audit Act No. 19 of 2018, the University College 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 College.

1.4 Scope of Audit

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 great 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 Company'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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 College and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the University College has complied with applicable written law, or other general or special directions issued by the Board of Governors of the University College;
- Whether the University College has performed according to its powers, functions and duties; and
- Whether the resources of the University College 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
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(a) Without functioning in compliance with paragraph 13 of No. 7 of Sri Lanka Public Sector Accounting Standards, equipment amounting to Rs. 96,100 purchased in the year under review had been brought to accounts considering it as an expense related to the year.	Consumables used for practical activities such as bending, cutting and welding of iron were included in materials and equipment amounting to Rs.96,100. Therefore, the expense had been brought to accounts as an expenditure related to the year.	In compliance with the Accounting Policy, assets purchased with the expectation of using for a period more than one year should be brought to accounts under property, plant and equipment.
(b) Without functioning in compliance with paragraph 19 of Sri Lanka Public Sector Accounting Standards No. 7, expenditure of Rs. 223,262 incurred for the boundary fence of the University College and for obtaining electricity connection for the security room of the University College had been	This expense had been incurred for supplying an underground electricity connection to the security room in a systematic way instead of the unsecure electricity connection supplied earlier, after considering the protection of students and employees of the University College and to install electric lamps along the boundary wall for the splendour and	Action should be taken in compliance with the Accounting Standard.

brought to accounts by considering it as a recurrent expenditure. protection of the University College and to supply the electricity connection for electric lamps. Therefore, this expense had been classified as a recurrent expenditure.

- (c) Without functioning in compliance with paragraph 65 of Sri Lanka Public Sector Accounting Standards No. 7, the written off value of 1500 library books amounting to Rs. 4,357,938 purchased in the year 2015 and still being used in the University College had become zero. Arrangements will be taken to appoint a formal Committee during the year 2019 for the revaluation of the value of books which had become zero and to mention the value of books in Financial Statements. Action should be taken in compliance with the Accounting Standard.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Even though expenses incurred for the Capacity Development as per the items of account introduced by the Universities of Vocational Technology should be recorded in financial statements as capital expenditure under object code 2112, expenditure amounting to Rs. 1,935,500 had been brought to accounts as recurrent expenditure.	All the expenses incurred for the capacity development subject to the approval of the Board of Governors of the University College are stated as recurrent expenditure in financial statements.	Accounting should be done in accordance with the items of account introduced by the University of Vocational Technology.

1.5.3 Unauthorized Transactions

Particulars regarding Unauthorized Transactions	Comments of the Management	Recommendation
In terms of Section 45 of the University of Vocational Technology Act, No. 31 of 2008, even though it shall be lawful, to transfer funds from one vote to another of the annual estimates, subject to the written approval of the Treasury, capital funds amounting to Rs.263,500 had been transferred to recurrent funds without approval.	All the expenses incurred for the capacity development subject to the approval of the Board of Governors of the University College are stated as recurrent expenditure in financial statements.	Action should be taken in terms of the University of Vocational Technology Act.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 6 (f) Section of the Operating Manual issued in the year 2014 by the Ministry of Youth Affairs and Human Resources Development for the University College.	Even though lecturers of the University Colleges should be engaged in teaching activities for 25 hours a week, the number of hours of the involvement of lecturers in teaching activities was in a range of 3.5 hours to 18 hours.	Even though it had been stated in the Operational Manual issued by the Ministry that lecturers of Universities should be engaged in teaching activities for 25 hours a week, TVEC and UNIVOTEC Officers had revised the period up to 20 hours in the year 2015.	Action should be taken in accordance with the Operational Manual.
(b) Section 4.7.3 (a) of the Operational Manual for University Colleges.	Progress reports had not been maintained for mentioning lectures and practical trainings conducted daily for students of each course and supervising and recording the conduct of lecturers and daily supervision of teaching activities and supervision of subjects had been in a poor status.	Action is being taken to maintain progress reports for this semester and supervisory activities will be conducted properly in the future.	Action should be taken in compliance with the instructions provided.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 627,212 and the corresponding deficit in the preceding year amounted to Rs. 6,356,875. Therefore, an improvement amounting to Rs. 5,729,663 of the financial result was observed. The major reason for the improvement is the increased receipt of recurrent grants amounting to Rs. 11,069,100.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though it had been planned to cover 2,910 hours of theory and 1,295 hours of practical training for 08 courses for the semester starting from July 2018 to December by outsourcing 28 visiting lecturers and letters of appointment had been issued for that purpose, the two parties had not entered in to a formal agreement including the subjects to be covered by external visitors, number of teaching hours, charges that should be paid and the other conditions.	As stated here, the number of teaching hours of subjects that had to be covered and the other conditions had been included in the appointment letter. Only the letters of appointment issued for the Semester started on 25/07/2018 had been issued without stating a fixed charge until a specified charge is determined as per the letter received from the Department of Management Services on 23/07/2018.	An agreement should be entered in to by the both parties even though Conditions had been included in the letter of appointment as it cannot be used as a legal instrument in an instance where the conditions are breached.
(b) 152 theory hours and 2 hours of practical training had been covered by obtaining the services of 6 visiting lecturers to cover the Subject of Travel Services Management and the appointment of 02 of visiting lecturers had not been made systematically.	Appointments had been made for four visiting lecturers out of six visiting lecturers by conducting formal interviews for covering the Subject of Travel Services Management. Letters of Appointments had not been given to two lecturers who had not attended the interview. Action will be taken to conduct interviews for them and to provide letters of appointment.	Conducting interviews and offering the letters of appointment should be done before getting their services.
(c) A range of forty eight (48) per cent to 100 per cent out of the hours planned for the provision of practical training for 07 courses within the period of from July 2018 up to December related to the second semester of the NVQ 5 and the First semester of the NVQ 6 through obtaining the services of visiting lecturers had not been covered.	Visiting lecturers left the service as wages per hour of a visiting lecturer had not been specified. Action will be taken to cover the subjects that had been omitted in the first and second semesters in the year 2019.	A certain curriculum of a certain course has to be completed within a certain time frame.

- (d) Even though it had been planned to cover 2,230 hours of theory and 1,244 hours of practical training by obtaining the services of 07 visiting lecturers during the period of January to June 2018, only 1,134 hours of theory and 212 hours of practical training had been covered. Accordingly, 51 per cent of theory hours and 19 per cent of practical training hours had been covered.
- Theoretical and practical studies of the aforementioned syllabuses are covered by face to face studies and self-studies and the hours which had not been covered as mentioned above had been covered by using self-practical tests and self-help books.
- If parts of subjects are covered by self-studies, such subject parts should not be included in time-tables and a lecturer should not be employed for teaching such subjects.
- (f) Even though it had been planned to cover 2,915 hours of theory and 1,295 hours of practical training by obtaining the services of visiting lecturers during the period study which was from July to December in the year under review, only 1,884 hours of theory and 391.75 hours of practical training had been covered. Accordingly, 65 per cent of theory hours and 30 per cent of practical training hours had not been covered.
- It was difficult to obtain the services of visiting lecturers due to the revisions made during the second semester and action had been taken to cover the fundamentals that should be covered for the theoretical and practical training of the aforementioned semester. Action will be taken to cover the relevant subjects in the future semesters through the related assignments.
- These students will be following a higher level of studies in the future semesters and the students in NVQ 6 may leave the course after completing it. The prescribed parts of subjects should be covered during the relevant semester.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Equipment worth Rs. 3,654,840 purchased for the Self Motion Technological Division in the years 2014 and 2015 for the practical activities of students had not been utilized even at the end of the year under review.	The electricity connection required for these equipment stated under Numbers 5, 9, 19 and 21 has already been established and action has been taken to install a pipe system inside the laboratory to obtain a systematic and secured water supply and to dispose hot water and waste water systematically from the laboratory.	Requirement has to be identified and purchases should be made accordingly and students should be involved in practical activities in order to produce capable students.

- (b) Training equipment worth Rs. 4,256,268 purchased in the year 2015 for practical studies of students had not been utilized for practical training activities even by 28 February 2019.
- The inadequacy of the limited space available has become a great hindrance and Wheel balancing machine / pedestal grinder are being utilized as per the requirement even under the limited space facilities.
- It is required to educate parts of subjects through practical activities as it will bestow a practical person to the society.

3.3 Procurement Management

Audit Observation	Comment of the Management	Recommendation
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Capital Assets amounting to Rs.2,126,125 had been purchased despite the non-availability of provisions without taking action in compliance with Section 4.1.1 (c) of the Government Procurement Guidelines.	An amount of Rs. 12 million had been allocated for our Institution by the General Treasury for capital expenditure in the year 2018 and our institution functioned within the Provisions. However, money for several capital goods purchased could not be paid as the General Treasury had not released money in the year 2018.	Purchasing should be done after confirming whether provisions have been certainly received.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comment of the Management	Recommendation
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An Internal Audit Unit had not been established in the University College in terms of FR 133 and an even an Internal Audit had not been carried out in the year under review.	An Internal Audit Unit has not been established in our Institution as an Internal Auditor has not been appointed for our Institution. Therefore, we were unable to conduct an Internal Audit. I will take proper action in this regard in the future.,	An internal audit has to be carried out in terms of the Financial Regulations.

4.2 Audit Committees

----- Audit Observation -----	Comment of the Management -----	Recommendation -----
In terms of Public Enterprises Circular No. PED 55 of 14 December 2010, the University College should establish Audit and Management Committees. Nevertheless, action had not been taken accordingly.	Audit and Management Committees had been conducted in affiliation with the Audit and Management Committee conducted in Vocational Technical College for the year 2017 since there is no Audit and Management Committee in our institution.	Audit and Management Committees should be established in terms of the Circulars.