

University of Moratuwa - 2019

1.1 **Opinion**

The audit of financial statements of the University of Moratuwa for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 107(5) 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, the financial statements give a true and fair view of the financial position of the University of Moratuwa as at 31 December 2019, 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 Opinion**

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 opinion.

1.2 **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.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 757- (2) (a) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	In terms of the Financial Regulation, action had not been taken on the stock shortage in the maintenance warehouse amounted to Rs. 3,304,883 as per the stock verification report as at 31st December of	Action will be taken to look into this matter in detail and take necessary action accordingly.	Action should be taken in terms of Financial Regulation.

the year under review
until 07 July 2020.

- (b) State Accounts Circular No.842 of 19 December 1978 A Fixed Assets Register had not been maintained for the fixed assets owned by the University. Revaluation values of all assets acquired up to 31 December 2013 and values of all assets purchased up to 2018 had been entered at the moment. Some of the fixed assets purchased in 2019 had been included and this fixed asset register can be provided at the level currently completed. A fixed asset register should be properly prepared, update and maintained.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 458,904,896 as compared with the corresponding deficit of Rs. 98,671,571 in the preceding year, thus indicating a deterioration of Rs. 360,233,325 in the financial result. Compared to the previous year, even though in government grants had increased by Rs.427,570,000, the increase in personal emoluments by Rs.417,211,176, annual gratuity expenditure by Rs. 329,996,358 and contractual service expenditure by Rs. 43,303,426 had mainly attributed to the said deterioration.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation -----	Management Comment -----	Recommendation -----
It was observed that Rs. 3,093,310 paid to a private contractor was a uneconomical expenditure due to the landscaping not being done properly due to lack of proper planning.	During the project is in progress, variable orders were issued on various occasions as per the requirements of the University and there were instances where the contents of the scope also changed. However, the work done by the contractor in the project has been physically inspected and relevant certificate and recommendations have been	Contracts should be awarded on properly prepared plans.

obtained and a sum of Rs. 3,094,759 had been paid to the contractor, The cost has been incurred for the needs of the University and cannot be considered as a uneconomical expenditure.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a).A total sum of Rs.76,861,700 was due as at 31 December of the year under review from 37 lecturers who proceeded abroad on study leave and breached the agreements and bonds and that balance included a sum of Rs.5,826,861 due from 09 officers was older than 20 years.</p>	<p>After recovering Rs. 17,100,722 in the year 2019 from the officers who breached the bonds, the due balance is Rs. 76,861,700. Actions are being taken to recover outstanding immediately regarding the 10 officers who breached the agreements and bonds more than 20 years as per the instructions and guidelines of the Bond Review Committee.</p>	<p>Bond values should be recovered from the lecturers who breached the agreements and legal action should be taken on lecturers who had not paid.</p>
<p>(b)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, approval had not been taken even by the date of audit.</p>	<p>The Committee on Public Enterprises has directed the University to obtain a Cabinet approval to establish a legal framework for Uni Consultancy Service and the University Grants Commission is working on it. Accordingly, the Cabinet Memorandum will be submitted to the Ministry for approval by September 2020.</p>	<p>Action should be taken to obtain Cabinet approval.</p>

3.3 Operation Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a). Without identifying the requirement, 397 toners and cartridges procured at a total cost of Rs. 5,422,227 During the period from the year 2014 to year 2018 were remained in the main store.	These toners and cartridges will be issued to the required departments and divisions in the future.	The requirement should be identified and take action to purchase the store items.
(b). In accordance with the agreements entered with private institutions for the "BIT" course, which is coordinated by the University's Centre for Open and Distance Education, each institution is required to enroll a minimum of 60 students per year. But action had not been taken to collect a sum of Rs. 8,255,000 due from institutions, due to non-enrollment of 14 to 40 students by those two private institutions during the period until the date of audit, 10 August 2020.	Appropriate action will be taken in this regard on the approval of the Board of Management.	Should act in accordance with agreements.

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendation
A sum of Rs. 13,016,437 of the income earned from the "BIT" course during the	As the approved staff for this CODL centre had not been recruited till the end of the year	Should act in accordance with agreements.

period from year 2016 to 2018, the required staff had recruited from outside and, accordingly, the required staff had been recruited from Uni Consultancy and a sum of Rs.13,016,437 had been paid as the salaries of those employees for the above period. It had been accounted as a direct expense. At present, the required staff has been recruited for this centre. No need to pay like this to Uni Consultancy in future.

3.5 Under -utilization of Funds

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
<p>(a). A total sum of Rs.13,137,228 in 35 development funds in university courses and departments were remained idle during the year and the total sum of Rs.50,475,124 in 27 funds were underutilized as at 31 December 2019,</p>	<p>Even though these funds were remained ideal for a period of one or more years, will be used for intended purpose in future. Since the funds are not provided by an external entity, there is no issue in keeping them as a reserve without spending.</p>	<p>Funds should be utilized for the intended purposes.</p>
<p>(b). Due to having issues in the criteria of awarding of scholarships, a total sum of Rs. 4,548,539 had in 26 scholarship funds as at 31 December 2019 were underutilized for more than 10 years .</p>	<p>Action will be taken to obtain the report of the relevant committee regarding these scholarship funds as soon as possible and further action will be taken accordingly.</p>	<p>Funds should be utilized and achieve the relevant objectives by solving existing issues in the criteria.</p>

3.6 Human Resource Management

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>The approved cadre of the academic and non-academic staff of the University as at 31 December 2019 stood at 987 and 873 respectively, and actual cadre of the academic and non-academic staff stood at 588 and 676 respectively, thus 399 and 197 vacancies existed respectively. 80 persons had been recruited for those vacancies on contract basis and due to external Lecturers were recruited to fill the academic staff vacancies a sum of Rs. 37,600,964 had been paid as allowances for the year under review.</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 the vacancies in non-academic staff will be filled from the lists giving by the Ministry of Higher Education.</p>	<p>Action should be taken to fill the vacancies.</p>