

Technological Institute of the University of Moratuwa – 2018

Qualified Opinion

The audit of the financial statements of the Technological Institute 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, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.4 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute 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.

1.1 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.4 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.

1.2 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 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 Institute 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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute financial reporting process.

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

1.3 Audit Scope

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 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 Company/ Corporation/ Board/ Authority (*As applicable*), and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.4 Financial Statements

1.4.1 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.

1.4.2 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) Cash flow statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standards 2. Following observations are made in this regard.		
(i) The release of the fixed deposits to the value of Rs. 5,712,172 during the year under review and the income on the interest of Rs. 603.306, which has been reinvested, have not been shown in the cash flow statement.	It is agreed to rectify relevant adjustments after examining these issues.	Action should be taken to adhere to Accounting Standards and resources of finance should be included in cash flow statement.
(ii) The net value of adjustments to the value of Rs. 2,895,180, which has been made for the rectification of defects observed in the accounting of the income and expenditure of operations in year 2017, and makes no effect to the deficit occurred from operations of the year under review, has been shown under Non Financial Movements in the Cash Flow Statement of the year under review.	It is agreed to rectify relevant adjustments after examining these issues.	Action should be taken to rectify the cash flow statement.

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| <p>(iii) The amount of Rs. 11,095,168, which was the allocation for gratuity for the year under review, and the amount of Rs.791, 562, which has been paid in cash during the year, have not been shown in the cash flow statement separately as a cash inflow under Non Financial Movements and cash out flow respectively, and Rs. 10,303,605, the net value of the above has been shown under Non Financial Movements as a cash inflow.</p> | <p>It is agreed to rectify relevant adjustments after examining these issues.</p> | <p>Action should be taken to adhere to Accounting Standards.</p> |
| <p>(iv) The amounts of Rs. 1,500,000 spent for reestablishment and development project and the amount of Rs. 700,000 spent for aesthetic programmes have not been shown in cash flow statement as a cash outflow.</p> | <p>It is agreed to rectify relevant adjustments after examining these issues.</p> | <p>Cash flow statement should be prepared accurately.</p> |
| <p>(b) Even though the property, plant and equipment to the value of Rs. 11,993,585 has been totally depreciated as at 31 December 2018 as a result of non reviewing of fixed assets during their productive life period as per para 65 of Sri Lanka Public Sector Accounting Standards no 07, they were still being utilized. The defect occurred in the estimation of depreciation ratios due to that situation has not been revised as per Sri Lanka Public Sector Accounting Standards no 03.</p> | <p>It has been noted to verify the fixed assets which are utilized even after their productive life period and to include them in the accounting reports submitted in year 2019.</p> | <p>Action should be taken to adhere to Accounting Standards.</p> |
| <p>(c) Technological Institute has filed a case at District Court, Moratuwa demanding Rs. 05 million from an outside institution and an appeal has been filed by the respondents at the High Court. However a disclosure has not been made in financial statements in this regard as per Sri Lanka Public Accounting Standards no 08.</p> | <p>Relevant officers have been informed to note to submit such legal cases when submitting annual accounts reports for the coming year.</p> | <p>Disclosures should be made in financial statements as per relevant standards.</p> |
| <p>(d) In terms of the para 48 of Sri Lanka Public Sector Accounting Standards No 01, income and expenditure should not be set off when ever permission is not granted for such action. However technological institute has set off an expenditure of Rs. 3,805,568 against the income of Rs. 4,402, 087 generated in year 2018 and further Rs. 596,519 has been accounted differed income.</p> | <p>It was noted to enter the income and expenditure for conducting short term courses, providing consultancy services and practical assignments of other higher educational institutes shown by you in the performance report.</p> | <p>Accounts should be maintained as per Accounting Standards.</p> |

1.4.3 Accounting deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) An amount of Rs. 6,303,404, received as the hostel fees during the year under review, has been accounted as differed income instead of accounting that as an income.	This amount has been shown as per the instructions given by the Audit Committee as a differed income without entering in the income in order to retain it for the maintenance of hostels. However criteria are being formulated now for all the cash funds of the institute and this is also included in the above.	Hostel fees should be accounted as annual income.
(b) An expenses of Rs. 2,104,236, which has been made in year under review for year 2017, has been accounted as an expense of the year under review and under such situation the deficit of the year has been overstated by the said amount	Even though it should be debited to the accrued account, it has been debited by mistake to electricity expenses account. However it was noted to make necessary rectification.	When expenses relevant to previous years are paid during the year under review, it should be adjusted to relevant accrued expenses account or shown as adjustments of previous years.
(c) The grant of Rs. 3,499,000 received for Reestablishment and Development Project, which is a capital project, and the expense of Rs. 186,667 made from the above have been accounted as Revenue income and Revenue expenditure and accordingly a decrease by Rs. 3,312,333 is observed in the deficit on operations.	It was noted to submit relevant rectifications with the annual accounting reports of year 2019.	Capital grants should be correctly accounted identifying them properly.
(d) An amount of Rs. 11,767,051, which has been made in year 2017 for the Reestablishment and Development Project , Diyagama, has been identified as an expenses in the Statement of income instead of showing it under 'works in progress' and the grant of Rs. 5,000,000 received in 2017 for this expense has been accounted as operational income. This deficit has not been rectified even in the year under review.	It was noted to submit relevant rectifications along with the annual accounting reports of year 2019.	Relevant rectifications should be made in the accounts.

1.5 No compliance with laws, rules, regulations and management decisions

Reference to laws, rules regulations etc.	Non compliance	Comments of the Management	Recommendation
(a) Para 45 (2) (1) XV) of the University Act No 16 of 1978	Even though any amount belonging to University should either be invested in a legal security or deposit in a bank approved by University Grants Commission as a fixed deposit, an amount of Rs. 3,082,004 belonging to four funds has been retained in the current account of Technological Institute without utilizing for any task.	Even though action has been taken to invest the amount of Rs. 204,676 , which has been shown in the audit , they have been spent for recurrent expenditure as allocation for recurrent expenditure is not sufficient.	Action should be taken to invest funds strictly for the relevant purpose and further to invest such funds in fixed deposits until they are utilized.
(b) Financial Regulations 757(c) 2 (a)	Even though relevant reports of board of survey for 2018 should be submitted to the Auditor General, they were not submitted for auditing until 10 May 2019.	10 Boards of Survey have been appointed for verification of stocks and reports received from 05 Boards have been submitted to Auditor General. Action will be taken to submit the remaining reports as soon as they are received.	Action should be taken to submit reports of Boards of survey conducting relevant verifications on due dates.
(c) Financial Regulations 445	Even though cash registers should be maintained for each account such cash book has not been maintained for the collection account of Technological Institute.	At present a cash book has been opened for account number 83062337.	Action should be taken adhering to financial regulations.

1.6 Management of finance

<u>Audit observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
An amount of Rs. 5,688,895 belonging to 3 funds, which has been invested in fixed deposits, has been withdrawn during the year under review to cover the operational expenses of the Technological Institute contrary to the objectives set at the establishment of funds.	Since no sufficient allocations were received from the Government for recurrent expenditure for year 2018, those fixed deposits had to be withdrawn.	Action should be taken in accordance with the objectives made at the establishment of funds.

2. Financial review

2.1 Financial results

The operational result of the year under review amounted to deficit of Rs. 74,313,847 and the deficit and the corresponding deficit of in the preceding year amounted to Rs. 42,448,648. Therefore an deterioration amounting to Rs. 31,865,199 of the financial result was observed. The reason for the deterioration is the increase of recurrent expenditure by Rs. 770, 184,010 even though the increase of operational income by Rs. 739, 825,097.

2.2 Trend Analysis of major Income and Expenditure items

Following variances were observed in the statement of financial performance in the year under review when comparing following incomes and expenses with the same of previous year.

<u>Description</u>	<u>2018</u>	<u>2017</u>	<u>Percentage of the variance</u>
	Rs.	Rs.	%
Grants for recurrent expenditure	267,500,000	169,854,000	52
Amortization	651,438,105	7,142,998	9,019
Wages for the staff	235,149,644	147,176,344	60
Services under contracts	87,800,875	45,675,282	92
Expenditure for depreciation and amortization	651,438,105	6,897,170	9,345

The income on grants for recurrent expenses and amortization included in the operational expenditure in the year under review have marked an increased by 52% and 9019% respectively in comparison to year 2017. Mainly the amortization made for property, plant and equipment of Reestablishment and Development Project constructed and handed over in the year under review by the Ministry has caused for the increase of amortization value by 644,295,107.

Further the items such as wages for the staff, services under contracts, depreciation and amortization included in the operational expenditure has marked an increase of 60%, 92% and 9345% comparatively to year 2017.

2.3 Ratio analysis

(a) Current ratio

The current ratio , which was 1:1.38 during previous year, has been recorded as 1: 3.56 in the year under review. However the current ratio of the year under review has shown a decline further up to 2.56 comparatively to the previous year.

(b) Acid test ratio

During the previous year the ratio between current liabilities and acid assets was 1.52 to 1 but it has marked a decline as 4.22. to 1 during the year under review.

3. Operational review

3.1 Identified losses

Audit Issue	Management Comment	Recommendation
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A penalty charge of Rs. 477,009 had been paid during the year under review due to non payment of electricity bills on due dates.	Even though the payment made in January 2018 for electricity should be debited to accrued expense account it has been debited by mistake to the electricity expenses account. However it has been noted to make necessary rectifications.	Reasons for the failure to settle bills on due dates should be given and action should be taken against officers who are responsible for this matter.

3.2 Under - utilization of funds

Audit Observation	Management Comment	Recommendation
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(a) Rs. 10,195, 671, which is the grand total of the balances of 07 accounts as at 31 December 2018, has been kept idle for more than 10 years without utilizing for any purpose.	At present these funds have been invested in fixed deposits and no request has so far been made for payment from these funds.	Action should be taken to utilize funds for the objectives of such funds.

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| <p>(b) No scholarship has been granted during the year under review from 13 funds, of which the grand total is Rs. 1,383,072, out of 18 funds established to offer scholarships to students.</p> | <p>Most of these scholarships are offered at the ceremonies held for awarding of certificates for diplomas and even though applications were called for diplomas in year 2018, students boycotted it. Therefore no such ceremony has been held so far.</p> | <p>This should be utilized to offer scholarships to students.</p> |
| <p>(c) Capital grants provided from the General Treasury for several years have not been utilized for the relevant purposes and the amount of them is Rs. 11,525, 214 at the beginning of the year under review. Even though capital grants to the value of Rs. 6,470,000 has been received during the year under review the amount utilized during the year is Rs. 3,197,057. Therefore an amount of Rs. 14,798,158 was remaining as underutilized grants as at 31 December of the year under review.</p> | <p>Answers have not been provided.</p> | <p>Receiving and spending of the grants from General Treasury should be handled with proper management.</p> |

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendations
<p>The total number of vacancies existed as at 31 December of the year under review was 54 and these vacancies were reported in the following manner- vacancies in academic, assisting and non academic staff are 03,07 and 44 respectively.</p>	<p>Even though applications were called in year 2018 for filling of all these vacancies, recruitment targets were not fully completed due to lack of qualified applicants. However members are recruited to academic staff on temporary basis depending on the exigency of service.</p>	<p>Prompt action should be taken to fill these vacancies.</p>

4. Accountability and Good Governance

4.1 Annual action plan

Audit Observation	Management Comment	Recommendation
<p>(a) With a view to enhance the innovations and creativity through researches, it has been planned to make allocations from the budget to the value of Rs. 1,750,000 during the year under review and to submit 57 reports of researches, only 31 reports have been submitted in 2018. The amount spent for the purpose is Rs. 215,872.</p>	<p>There were 11 research papers submitted at international level in 2018 and it is an indicator of the higher quality. Action will be taken to increase the number of reports on research submitted at annual sessions on research.</p>	<p>Action should be taken properly to submit the reports of researches, which have been planned.</p>
<p>(b) Even though it has been planned to implement development activities including the establishment of student development unit and career guidance unit with a view to introduce a new system for the personality development of students, these actions have not been taken even by 31 December 2018.</p>	<p>A student development committee has been established in the institution with a view to introduce a new system for the enhancement of the personality of students and several programmes have been implemented in 2018 for the development of student leaders.</p>	<p>Action should be taken to implement activities included in the annual action plan in the same year.</p>
<p>(c) Even though it has been planned from 2016 to develop a productive Management Information System in Technological Institute, the preliminary works of the system were being carried out by 31 December 2018. It has become impossible to get the expected works done by such system.</p>	<p>Even though the preliminary works connecting to the information system are being carried out in order to maintain information of students as per the requirement of the institution, it couldn't be applied practically during year 2018. It is expected to apply the software, which is now being prepared, for the registration of students in the coming year.</p>	<p>Action should be taken to implement relevant information system as planned..</p>

4.2 Sustainable Development Goals

Audit Observation	Comments of the Management	Recommendation
Every government institution should take action in compliance with the agenda 2030 of United Nations on sustainable development . Even though the University is aware of the tasks fallen under its scope relevant to the year under review, it has not been included in the annual budget, annual action plan of the year under review and further the performance indicators and the points ,where performance is evaluated, have not been identified.	A sustainable development committee chaired by a senior female lecturer has been appointed to take action on the works relating to the sustainable development and accordingly the relevant committee has identified objectives and targeted fields. Attention has been paid to the actions taken at present by the institution to achieve these objectives. It is understood the necessity for the inclusion of these objectives in action plans in order to facilitate the achievement of the objectives.	Action should be taken as per the circulars in order to achieve the objectives of sustainable development.