

Rajarata University of Sri Lanka - 2013

The audit of financial statements of the Rajarata University of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Sub-section 107(5) of the Universities Act, No.16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Rajarata University of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Deviation from Sri Lanka Public Sector Accounting Standards

Even though the Sri Lanka Public Sector Accounting Standard No.01 precludes the setting off of income and expenditure against each other, the interest amounting to Rs.491,738 paid during the year under review on loan obtained from a State Bank had been written off against the income from investments.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Action had not been taken to assess the value of lands exceeding 220 acres in extent owned by the University and include in the financial statements.
- (b) Instead of recognizing the interest amounting to Rs.4,518,078 received from investment of money received for the self-generating projects implemented by the University as the investment income of the University that had been credited to the respective Project accounts.
- (c) The University had adopted the policy accounting for the entire money allocated for research expenses from the budget as an expenditure for the year. Even though the actual expenditure on researches during the year under review amounted only to Rs.4,183,432 the entire sum of Rs.7,000,000 allocated had been shown as expenditure. The balance remaining after meeting expenditure annually had been brought forward as the balance of the Research Grants Fund Account and that balance as at the end of the year under review amounted to Rs.11,467,078.
- (d) Even though the mobilization advances granted for the projects implemented by the University had been settled through the subsequent payments for the bills, those had not been adjusted by the Journal entries. As such the Mobilization Advances Account had been overstated by a sum of Rs.2,065,676 while the Work-in-progress Account had been understated by that amount.
- (e) Even though an asset should be depreciated systematically from the time it was brought to usable condition and during its useful life, the provisions for depreciation

amounting to Rs.4,713,263 had not been made for the 02 preceding year in respect of the water project constructed at a cost of Rs.47,132,633.

2.2.3 Unreconciled Control Accounts

- (a) Even though the balance of the Endowment Fund Account in the name of a Professor had been shown as Rs.52,625 in the schedule to the financial statement, that had been shown as Rs.102,625 in the Ledger Account and as such a difference of Rs.50,000 was observed.
- (b) According to the personal files, the money recoverable as at 31 December 2013 from two teachers of University who had breached the agreements amounted to Rs.1,354,676 and that amount had been shown as Rs.1,538,421 in the financial statements.

2.2.4 Lack of Evidence for Audit

The following observations are made,

- (a) The documents required for the establishment of the value and existence of the livestock of the Faculty of Agriculture shown as Rs.82,270 in the financial statements had not been furnished to audit.
- (b) Reply to an audit query on the research allowance of Rs.26,944,235 paid to the academic staff during the year under review and the preceding year had not been furnished. As such it was not possible to ascertain the accuracy of the payments.

2.3 Accounts Receivable

Two research advances amounting to Rs.75,000 remaining without being settled during periods ranging from 01 year to 06 years remained without being recovered even by the end of the year under review.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Treasury Circular No,842 of 19 December 1978	The computerized Register of Fixed Assets of the University had been updated only upto to 31 December 2010 and as such 15 items of fixed assets valued at Rs.1,804,302,726 included the accounts from 01 January 2011 to 31 December 2013 could not be satisfactorily vouched in audit.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) Financial Regulation 772(1) Action had not been taken to take a suitable course of action for the disposal of 1,230 items of goods of 76 categories of goods identified by the Annual Board of Survey for the year 2013.
- (ii) Financial Regulations 1645(b) and 1646 The Daily Running Charts and the Motor Vehicle Log Books relating to the year under review had not been furnished to audit. As such a sum of Rs.7,478,277 out of the fuel expenses and motor vehicles maintenance expenses amounting to Rs.4,436,025 included in the income statement could not be satisfactorily vouched.

2:5 Transactions of Contentious Nature

The following observations are made.

- (a) Even though the value of the estimate prepared by the University for the construction of a boundary wall around the official quarters of the Vice Chancellor amounted to Rs.8,006,455 and the lowest eligible quotation received from the procurement process amounted to Rs.8,013,185, the construction contract had been awarded to another contractor who submitted a quotation of Rs.9,630,623 disregarding the estimated value and the lowest quotation. As such the University Fund had incurred a loss of Rs.1,617,438.
- (b) Even though the University has an Engineering Unit with two Engineers and other Engineering Staff, the supply of consultancy services for the contract for construction of a boundary wall around the official quarters of the Vice Chancellor had been assigned to the State Engineering Corporation for consultancy fees amounting to 5.5 per cent of the estimated value.
- (c) According to the bid formats included in the contract documents relating to the contract for the construction of a boundary wall around the official quarters of the Vice Chancellor, liquidated damages amounting to 0.05 per cent and up to a maximum of 10 per cent of the contract value or each day of delay of completion of work should be recovered, Though the delay from the scheduled date of completion up to 21 October 2014 had exceeded 200 days, action had not been taken for the recovery of liquidated damages amounting to 10 per cent of the contract value or Rs.963,062. Action had also not been taken to extend the period of contact.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the operations of the University for the year ended 31 December 2013 had resulted in a deficit of Rs.18,154,195 as compared with the corresponding deficit of Rs.24,064,637 for the preceding year, thus indicating an improvement of Rs.5,910,442 in the financial results for the year under review. The increase of the income from the external courses in the year under review by a sum of Rs.36,970,653 had been the main reason for the improvement.

4. Operating Review

The academic performance of the University during the year under review had been as follows.

4.1 (a) Results of Examinations

The particulars of the final examinations conducted during the year under review and the passing of degrees are given below.

Particulars	Faculty of Applied Science	Faculty of Agriculture	Faculty of Management Studies	Faculty of Social Sciences and Humanities	Faculty of Medical and Allied Science	Total
Number of students who sat the Final Year Examination of the year under review	204	88	344	464	230	1,330
Number who have passed with Class Results	74	61	32	409	69	645
Number of normal Passes	103	20	233	29	130	515
Total Number of Passes	177	81	265	438	199	1,112
Number of failures	204	07	79	26	31	170
Percentage of Failures out of the number of Students who sat the Examinations	13.23	7.9	22.9	5.6	13	12.7

- (i) Number of students of 05 Faculties who sat the final year examination in the year under review had been 1,330 out of that 170 students had failed the examinations and that represented 12.7 per cent of the number of students who sat the examinations.
- (ii) The release of the results of the semester examinations of the Faculty of Social Sciences and Humanities and the Faculty of Management Studies for the year under review had been delayed by periods ranging from 05 Months to 10 months.
- (ii) The information on the conduct of the semester examinations of the Faculty of Applied Science and the Faculty of Agriculture and the release of the results thereof had not been furnished to audit and as such it was not possible to examine the efficiency of the release of results of those examinations.
- (iv) The results of all the examinations of the Faculty of Medicine and Allied Science had been released in periods ranging from 11 days to 82 days.

(b) Cost per Student

The total recurrent cost and the cost per student of each Faculty during the year under review are given below.

	Faculty of Agriculture	Faculty of Applied Science	Faculty of Social Science and Humanities	Faculty of Management	Faculty of Medical and Allied Science	Total
Total Cost (Rupees)	83,772,217	93,057,757	73,651,200	103,993,620	130,270,559	484,745,353
Total Number of Students	427	862	1,292	1,731	1,090	5,402
Cost per Student	196,188	107,956	57,006	60,077	119,514	89,734

The enrollment of a lesser number of students to the Faculty of Agriculture as compared with the other faculties, had been the reasons for the increase in the cost per student.

(c) Progress of conduct of Lectures

- (i) The only written evidence available for the measurement of the progress of the lectures conducted in respect of each Faculty of the University as well as that of the academic staff are the signature cards recording the attendance of the students for each lecture. It was observed that the document was not an adequate internal control system for the Heads of Departments or the Heads of Faculties for the supervision of the Semester progress of the Lecturers relating to course or the subject. As such it was not possible to establish that

the Heads of Departments or the Heads of Faculties had adequately evaluated the academic performance.

- (ii) The physical targets of the academic performance had not been shown in the Action Plan prepared for the year 2013 and as such it was not possible to evaluate the achievement of the targets at the each of the year.

4:2 Operating Inefficiencies

(a) Instead of repairing and using a repairable van belonging to the University, a sum of Rs.873,168 had been paid during the year under review for motor vehicles obtained on hire basis.

(b) Despite the availability of a sum of Rs.29 million comprising Rs.18 million received from the Treasury for the acquisition of 40 Police Quarters and the land situated in the Rajarata University of Sri Lanka premises and the interest earned thereon, a sum of Rs.21,318,000 had been paid in the year under review from the University Fund for 48 private houses on rent basis for the students hostels without taking action for the acquisition of the Police Quarters by utilising the money.

(c) Library Books not returned

(i) One hundred and sixty seven books borrowed by 56 members of the academic and the non-academic staff of the Rajarata University of Sri Lanka from the main Library had not been returned despite the elapse of periods ranging from 06 months to 07 years from the due dates.

(ii) Eleven books borrowed by the 04 teachers from the Library of the Faculty of Agriculture had not been returned despite the elapse of periods ranging from 04 months to 05 years by 31 December 2013.

4:3 Idle Assets

The balance of Rs.906,230 in an account maintained in a State Banka remained dormant from the year 2012.

4:4 Delayed Projects

Even though a sum of Rs.7,200,000 had been deposited with the Divisional Secretary, Nuwaragama Palatha Central in the year 2011 for the acquisition of a land about 15 acres in extent for the widening of the Faculty of agriculture, the acquisition had not been finalized even by June 2014.

4:5 Staff Administration

- (a) Vacancies in 118 posts in the academic staff and 72 posts in the non-academic staff existed in the year under review.
- (b) Even though vacancies in the academic staff existed there was an excess of 14 Lecturers for certain subjects while 35 Lecturers on local and foreign scholarships and two lecturers on Sabbatical leave had been out of the University during the year under review. As such the number of academic staff that could not be deployed in academic activities had been 155 and that represented 52 per cent of the approved staff. In view of the large number of vacancies, the services required had been obtained by paying lecture fees amounting to Rs.12,832,113 to 179 External Lecturers.
- (c) According to the Register of the Actual and Approved Staff of the University, there were vacancies in about 64 non-staff grade posts in University. Irrespective of those vacancies, a sum of Rs.15,143,478 had been paid during the year under review to 109 skilled and unskilled labourers and Computer Operator Assistants employed for the Labour Supply Division. But there was no evidence of the formal approval for that obtained from the General Treasury or the Ministry of Higher Education or the University Grants Commission.

4:6 Non-revision of Degree Courses targeting the Employment Market

The syllabuses of 13 Degree Courses of the University had not been revised over periods ranging from 06 to 17 years.

4:7 Uneconomic Transactions

- (a) In addition to the landscaping maintenance service procured by the University in the year 2013 on the payment of a sum of Rs.9,933,284 to a contractor company, a sum of Rs.631,900 had been paid in the year under review to 15 labourers for landscaping maintenance obtained from the labour supply service.
- (b) Even though Department of Valuation had issued valuation reports for the years 2011, 2012 and 2013 in respect of the 34 houses obtained on rent basis for student hostels for the year 2013, a sum of Rs.1,296,000 had been spent during the year under review for the procurement of 14 students hostels at rates exceeding those monthly rentals up to 200 per cent.
- (c) A monthly rental of 34 houses obtained on rent basis for the students hostels in the year 2013 had been paid based on the prices furnished by the owners of the houses without obtaining the valuation of the Department of Valuation and as such a sum of Rs.16,296,000 had been paid from the University Fund during the year under review as annual house rent.

5. Accountability and Good Governance

5.1 Action Plan

The physical targets for achievement had not been specially shown in the Action Plan prepared for the year 2013. As such it was not possible to examine whether the University had directed its operation according to the Action Plan.

5:2 Internal Audit

The internal Audit Unit had been established in the year 2002. Even though the activities of the University had widely expanded from the year 2002 to in the year 2013, the internal audit staff had not been adequately revised to enable a full coverage of all the activities. Even though the internal audit staff consisted of 3 officers including the Assistant Internal Auditor and the Computer Operator Assistant an internal audit of the academic performance had not been carried out.

5:3 Budgetary Control

The estimated income of 06 items for the year under review had exceeded by 244 per cent while the estimated income of 05 items had fallen short by 58 per cent. The excess of expenditure under 19 items had been 91 per cent while the savings of provisions under 20 items of expenditure had been 48 per cent. Thus it was observed that the budget had not been made use of as an effective instrument of management control.

6. Systems and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Vice Chancellor from time to time. Special attention is needed in respect of the following areas of control.

- (a) Human Resources Management
- (b) Fixed Assets Control
- (c) Contract Administration
- (d) Budgetary Control
- (e) Motor Vehicles Control
- (f) Contractual Services and Contract Administration