

Eastern University of Sri Lanka - 2010.

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that, the Eastern University, Sri Lanka had maintained proper books of account for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the University as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended

1.2 Comments on Financial Statements

1.2.1 Delay in the Presentation of Financial Statements

Financial Statements of the Eastern University, Sri Lanka for the year ended 31 December 2010, which should have been rendered for audit within 60 days after the closure of financial year in terms of Section 6.5.1 of the Public Enterprises Guidelines for Good Governance Circular No. PED/12 of 02 June 2003, had been rendered to audit only on 02 May 2011.

1.2.2 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) Value of transactions of Post Graduate Diploma in Management and Extramural Studies had not been amalgamated in the financial statements of the University.

- (b) Balances of 04 Bank accounts had not been brought to the financial statements.
- (c) Even though Capital items procured under Improving Relevant of the Quality Under graduate Education (IRQUE) Project had been transferred to the University inventory, the value of assets had not been disclosed in the Financial Statements.
- (d) Rental charges had been overstated by Rs. 220,000 due to erroneous accounting.
- (e) Over recoveries amounting to Rs. 295,631 of the loans granted to staff had been credited to the loans and advances accounts instead of being credited to the liabilities account.
- (f) Laboratory equipment valued at Rs. 9,555,427 received from Central Environmental Authority during the year 2006 had not been brought to the accounts.

1.2.3 Deficiencies in the Bank Reconciliation Statements

Following observations are made.

- a) A sum of Rs. 1,527,243 had been shown in the bank reconciliation statement as unrealized deposits. However, action had not been taken to investigate and adjustments made in the accounts.
- b) Action had not been taken to investigate and to make appropriate adjustments in the accounts relating to the direct credits and direct debits valued at Rs. 5,704,648 and Rs. 4,952,914 respectively shown in the bank reconciliation statements.
- c) Action had not been taken in terms of Financial Regulation No. 396 in respect of cheques valued at Rs. 4,868,510 which had not been presented for payment for over six months.

- d) Bank reconciliations in respect of three bank accounts for the year under review had not been furnished to audit.

1.2.4 Lack of Evidence for Audit

- (a) The transactions during the year under review in the following bank accounts could not be satisfactorily vouched in audit due to absence of cash book, paid vouchers, bank statements and other important documents and records..

<u>Name of the Project</u>	<u>Name of the Bank</u>	<u>Account No:</u>
SENSARM	People's bank	1070025055
GEP	Bank of Ceylon	0002920232
CIDA	Bank of Ceylon	63074830
NTNU	Bank of Ceylon	6312188
CEFE	People's bank	1-67-002475-2
CSR D	Bank of Ceylon	0002920179

- (b) Documentary evidence such as attendance, basis of payment, agreements, quotations and copies of travel documents, relating to 4 items in the accounts aggregating Rs. 5,419,240 were not made available for audit.

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

Several provisions in the following Financial Regulations of the Government, Establishments Code for the University Grants Commission and Higher Educational Institutions, and Circular instructions not complied with had been pointed out to the Vice- Chancellor of the University from time to time.

- (i) Sections 109 and 110 of Universities Act, No 16 of 1978
(ii) Sections 153 and 155 of the Inland Revenue Act, No.10 of 2006.
(iii) Section 2.14.1 of the Government Procurement Guide Lines 2006.
(iv) Financial Regulations Nos.138,395(b),396(d),685,700(3),700(5),756,757, 835(2)(c),835(3) and 850.

- (v) Public Administration Circular No. 15/2001 of 07 August 2001.
- (vi) The Annual reports for the years 2008-2010 had not been tabled up to the date of this report.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented, the activities of the University during the year under review had resulted in a deficit of Rs. 449,144,987 after taking into account the Government Grant of Rs. 393,635,000 for recurrent expenditure as compared with the corresponding deficit of Rs. 437,418,960 for the preceding year after taking into account the Government Grant of Rs. 365,961,000 for that year thus showing an increase in the financial results by Rs.11,726,027.

2.1.2 Utilization of Research Grants

Following observations are made.

- a) Individual records in respect of each research grant project had not been maintained by the University.
- b) The records had not contained the details of agreements relating to the projects, the approval of the Research Committee and the research reports. In the absence of above, it was not possible to ascertain in audit as to whether the intended objectives were achieved from the utilization of those research grants.

2.1.3 Assets Management

- a) The value of fixed assets aggregating Rs. 439,447,855 shown in the accounts had been based on book value. However, a physical verification of these assets had

not been carried out as at end of the year under review in terms of Financial Regulations.756.

- b) 28 stationery items valued at Rs 931,890 had been lying at the stores without being utilized for over five years.

2.1.4 Identified Losses

- (a) Action had not been taken in respect of losses amounting to Rs. 17,860,815 sustained during 1990. However, it was disclosed as deferred charges in the books of accounts.
- (b) A sum of Rs. 97,098 had been paid as an interest due to delay in the payment of electricity bills.

2.1.5 Irregularities in Cutting and Removing of valuable 27 Nos. of Casuarinas Trees

The following observations are made.

- (a) Tender / quotations procedures had not been followed in terms of Section 1:14:2 of the Procurement Manuals - 2006 for cutting and removing of casuarinas (Savukku) and Vakkai trees, Instead, a private carpentry workshop, Morakottanchchenai had been selected on 16 March 2009 for cutting and removing of 27 Nos. of valuable trees for Rs. 70, 000, which according to the market value was estimated at a cost of Rs 500,000.
- (b) Although the above workshop was selected and awarded the contract on 16 March 2009 for cutting and removing of trees, trees had been removed only on October 2010 after lapse of 18 months.

- (c) As per schedule of the contract, approval had been given only for 20 Nos. of trees to be felled down. But 27 Nos. of trees had been felled down and removed fraudulently from the premises of the University as revealed at the physical examination carried out on 16. 10.2010.
- (d) The Council or Vice - Chancellor approval had not been obtained to award the contract for cutting and removing of trees. Instead, Senior Assistant Registrar, Acting Bursar and Acting Registrar had approved the contract without the knowledge of the Council.
- (e) Department of Forest had not been consulted before the felling down of trees and permit were not obtained from the Department of Forest.
- (f) Valuation for tress had not been obtained from the State Timber Corporation before awarding of contract.
- (g) Although contract had been awarded for Rs 70,000 to cut tress and payment had been made before felling down of tress. However, only a sum of Rs. 35,000 had been deposited to the University account on 22 May 2009 and balance of Rs.35,000 had been deposited only on 18 October 2010.

2.1.6 Procurement of PABX Systems under IRQUE Project

The following observations are made.

- (a) The equipment purchased at a cost of Rs. 3.4 million on 24 June 2010 were remaining idle at the Telephone Operator's room without being commissioned or used for the intended purposes.
- (b) Proper need assessment for PABX system had not been made before the procurement of equipment as installation and supply of the network system had not been pre - designed.

- (c) Procurement of this equipment had been based on 02 quotations instead of 05 quotations in terms of Section 2.14.1 of the Government Procurement Guidelines.
- (d) The Technical Evaluation Committee (TEC) had not been constituted with the technically competent person on IP based PABX system. Instead, the committee had been constituted with the Dean of the Faculty of Science, Director of Legal Technical Secretariat and Centre for Information and Communication Technical, Deputy Director (Finance) and Deputy Director, (Procurement) of IRQUE Project.

2.1.7 Double Payment of Withholding Tax (WHT)

A sum of Rs. 102,600 had been made twice for the purchase of uniform from a private company, Colombo. Further, Withholding Tax (WHT) amounting to Rs.5,130 also had been paid twice to the Commissioner General of Inland Revenue.

2.1.8 Uneconomic Transactions

Following observations are made.

- (a) A sum of Rs. 2,911,409 had been paid during the year 2010 as hiring charges of vehicles to the various officers of EUSL. However, tender / quotations procedure had not been followed for hiring of vehicles.
- (b) Payments amounting to Rs. 567,662 had been made out of the University Funds to the Students Union of EUSL to operate a main canteen without following tender / quotation procedure by the University.

2.1.9 Utilization of Funds for Faculty of Health Care Sciences (FHCS)

The following observations were observed.

- (a) Funds amounting to Rs. 11,811,971 had been obtained from the TROMSO University, Norway for various activities. However, proper books or records had not been maintained at the Faculty of Health Care Sciences by the Former Coordinator of TROMSO University.
- (b) Former Coordinator had not handed over documents, inventory items and books of accounts to the Dean, Faculty of Health Care Sciences. As a result, it was not possible to verify in audit about the utilization of funds for the intended purposes.
- (c) Formal appointment letter had not been issued by the University for the Project Officer and this officer had utilized a portion of the building of the Faculty of Health Care Sciences without any approval from the Vice – Chancellor of the University or Dean of Faculty of Health Care Sciences.

2.1.10 Financial Control over the Operation of Bank Accounts at the Faculties

The following deficiencies were observed.

- (a) Bank Reconciliation Statements had not been prepared by most of the Programme Coordinators and in certain instances bank reconciliation statements had not been prepared from the year 2009 only.
- (b) Cash books had not been maintained properly and in certain instances cash books had not been updated.
- (c) Approvals had not been obtained to operate these bank accounts from the respective Faculty Board and Senate of the University.
- (d) Coordinators for the programmes conducted at the Faculties had been appointed by the respective Deans of the faculties without being appointed by the Vice – Chancellor, who is the appointing authority.

- (e) 17 cheques to the value of Rs. 1,945,012 writing in favour of suppliers had been taken over by the Purchasing Officer (PO) and he personally issued the cheques to the suppliers contrary to Financial Regulations and other accepted Financial Procedures. In this connection, it was observed that the said officer had engaged with the procurement of goods / materials.

2.1.11 Procurement of 155 Nos. of Computers and 06 Nos. of UPS

A sum of Rs 14,559,150 had been paid on 03 August 2010 for the procurement of 155 Nos. of Computers and 06 Nos. of UPS under IRQUE Project during the year under review. In this connection, it was observed that , Order had been placed for the procurement of 155 Nos. of computers including 155 Nos. of license keys (Windows Vista Business downgraded to XP Professional original OEM license) , which were estimated at Rs 5,186,455 even though there were sufficient stock of license keys received as donation from a international software company. However, license keys so purchased were returned to the supplier in exchange for 15 Nos. of personal computers and 15 Nos. of UPS valued at Rs.1,395,000. As a result of this transaction, a loss of Rs,3,791,455 had been sustained by the University.

2.2 Performance Review

2.2.1 Academic Performance

Following observations are made.

- a) According to the information furnished to audit in relation to the activities of each Faculty for 05 academic years, the number of students registered and number of graduates passed out are given below.

<u>Faculty</u>	<u>Number of students registered</u>						<u>Number of graduates to passed</u>					
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Agriculture	28	32	32	26	49	46	17	28	24	60	28	16
Commerce and												

Management	63	49	64	174	231	162	123	88	76	100	61	47
Arts	173	198	312	151	342	253	184	161	260	155	221	296
Science	52	54	56	114	38	88	26	46	85	81	43	12
Health Care Sciences	-	27	36	55	72	-	-	-	-	-	-	-
Total	316	360	500	520	732	549	350	323	445	396	353	371

(b) Registration of students

(i) 732 new students had been registered with the University for the year 2009. The make up of these under graduates were 342 or 47% to the Arts Faculty, 49 or 7% to the Agriculture, 231 or 31% to the Commerce and Management Faculty, 38 or 5% to the Science Faculty and 72 or 10% to the Health Care Science Faculty.

(ii) The number of Students who obtained degrees during the year under review was 353. The make up of these graduates were 221 from Arts faculty 28 from Agriculture faculty, 61 from Commerce and Management faculty and 43 from Science faculty.

(c) Hostel Administration

Hostel facilities had been provided for 680 Students. The Hostel expenditure incurred during the year under review was Rs. 9,344,789 while the Hostel expenditure per student was Rs. 13,742. However, a sum of Rs 277,920 only had been recovered from the students.

(d) Results of Examinations held

According to the information made available the details of examinations held during the year under review and the number of students sat and passed out are given below.

<u>Faculty</u>	<u>Period of Examination Held</u>	<u>No. of Students sat for the Examinations</u>	<u>No. of Students Passed</u>
Agriculture	March, April, October, November and December 2010	221	80
Arts	March, April June, July, October and November 2010	1731	1481
Commerce and Management	February ,March, April, May, June, July, September, November and December 2010	456	340
Science	February ,March, April, October, November and December 2010	540	167
Health Care Sciences	June, July, November and December 2010	<u>79</u>	<u>59</u>
Total		<u>3,027</u>	<u>2,127</u>

(e) Cost per Student

Total number of students registered for 07 faculties of the University was 2,325
Total recurrent expenditure incurred during the year under review amounted to Rs. 459,417,277. The average recurrent cost per student for the year was Rs. 197,598.

(f) Mahapola and Bursaries

A sum of Rs. 15,290,000 had been paid as Mahapola for 596 students and a sum of Rs. 16,505,000 had been paid to 836 students as Bursary during the year under review.

(g) Library Administration

385 books had not been returned within the stipulated period by the students, academic staff and non academic staff who had obtained books from the Library. No proper action had been taken in order to get back these books and proper action had not been taken with regard to damaged books.

3.2.2 Audit and Management Committee

11 Audit and Management Committee meetings had been conducted during the year under review. The Committee in several meetings had recommended to reply to audit queries. However, action had not been taken to reply for the 07 audit queries issued during the year under review.

3.2.3 Breach of Bonds and Agreements

57 Nos. of lecturers of the University who went abroad on scholarships had not returned to the Island or left from the University after completion of the Scholarships.

In this connection, the following matters were observed.

- (a) Proper action had not been taken to recover a sum of Rs 70,407,561 from 57 officers who had breached the provisions in agreements and had not paid the bond value. The amount recoverable included Rs. 55,501,765, Rs. 1,747,170, Rs. 9,617,877 and Rs 3,540,748 which remain outstanding for over 5 years, from 04 to 05 years, from 01 to 03 years and less than 01 year respectively.
- (b) Action had not been taken to inform the relevant parties in terms of Section 7.8 of Chapter V of the Establishments Code for the University Grants Commission and Higher Educational Institutions in respect of the lecturers who had failed to refund the monetary value of bonds.

2.2.4 Unresolved Issues

The following matters pointed out in the audit reports on the accounts of the University for the previous year had not been settled up to 31 August 2011.

<u>Year of the accounts</u>	<u>Reference to the paragraphs in the report</u>	<u>Subject</u>
2009	2:2:3	Accounts receivable and payable.
	2:2:4	Deficiencies in the Bank Reconciliation Statements
	3:1:5	Identified losses

2.2.5 Corporate Plan

Although the Corporate Plan for the years 2003 - 2007, 2007 - 2011 and 2010 - 2015 had been prepared, the relevant information in terms of the Public Enterprises Circular No.PED/12 of 02 June 2003 had not been contained in the Corporate Plan and updated the Plan annually.

3. Systems and Controls

Observations made in systems and controls during the course of the audit were brought to the notice of the University from time to time. Special attention is needed in respect of the following areas of control.

- (a) Settlement of advances.
- (b) Utilization of Vehicles.
- (c) Fixed assets.
- (d) Bank Reconciliation Statements.
- (e) Budget.