

## **Sabaragamuwa University of Sri Lanka - 2013**

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The audit of the financial statements of the Sabaragamuwa 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 equity 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) and Sections 108 and III of the Universities Act No.16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Sabaragamuwa University of Sri Lanka in terms of Sub-section 108(1) of Universities Act appear in this report.

### **1:2 Management's Responsibility for the Financial Statements**

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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**

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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 judgment, 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**

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

**2. Financial Statements**  
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**2:1 Qualified Opinion**  
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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 Sabaragamuwa 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**  
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**2:2:1 Sri Lanka Public Sector Accounting Standards**  
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Instances of non-compliance with the standards are given below.

**(a) Standard No.1**  
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Even though the accumulated surplus or deficit should be shown separately from reserves, the deficit for the year under review had been adjusted to the opening balance of the General Reserve Account brought forward from the previous year and shown as the accumulated deficit without being so classified.

**(b) Standard No.02**  
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The cash flow statement should be prepared to show the cash inflows and outflows during the year under review. The following deficiencies were observed in that connection.

- (i) A cash out flow of Rs.486,969 in the stock included in the movement of working capital during the year had been shown as Rs.11,639,385 and the cash inflow of Rs.3,126,106 in the other current assets had been shown as a cash outflow of Rs.8,026,310.
- (ii) In calculating cash inflows from restricted funds several adjustments thereto had not been made and as such there was a difference of Rs.4,015,640 in the actual cash flow statement.

**2:2:2 Accounting Deficiencies**  
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The following observations are made.

- (a) The stock as at the end of the year under review had been brought to account at book value. A difference of Rs.1,383,912 was observed between the stocks verification value and the book value as at that date.

- (b) A water bouser, the net value of which was Rs.6,220,301 had been damaged by an accident and become unusable. The insurance claim had been lodged under fully damaged basis. Although the net value of the asset as at the end of the year under review was shown as a non-current asset, information for the loss had not been disclosed. It was informed in March 2014 that the insurance Company had agreed to pay an insurance indemnity of Rs.5,850,000.
- (c) There was a difference of Rs.202,012,681 between the value of fixed assets based on depreciation calculation and the statement of financial position. As a result, the accuracy of depreciation for the year amounting to Rs.168,701,356 shown in the statement of financial performance had been questionable.

### **2:2:3 Lack of Evidence for Audit**

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Evidence indicated against the following items of accounts shown in the financial statements was not made available for audit.

<b>Item of Account</b>	<b>Value</b>	<b>Evidence not made Available</b>
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	<b>Rs.</b>	
(a) Debtor balance carried forward prior to the year 2003	105,525	Detailed Schedules.
(b) Thirty two balances of various funds	33,789,243	Subject Files, Objectives and Functions of the Funds.

### **2:2:4 Transactions not Supported by Adequate Authority**

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According to the agreement entered into for the supply of security services to the University for the period from October 2011 to October 2012, the payment had been made after making necessary deductions due to number of security officers not employed as agreed according to the agreement. However, the amount of Rs.9,432,774 so deducted had been refunded to the security firm on the written request of the Secretary of the Ministry of Higher Education, contrary to the conditions agreed.

### **2:2:5 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of the 25 receivable staff loan balances totalling Rs.1,044,884, the recoverability of which was completely stopped as at the end of the year under review, loan balances remained outstanding for more than 5 years totalled Rs.403,261.
- (b) Action had not been taken to settle 263 balances of tender deposits, retention money and bid securities totalling Rs.57,058,489. Hundred and seventy three loan balances totalling Rs.7,969,999 and 90 balances totalling Rs.49,088,490 included therein had been older than 5 years and the periods ranging from 1 to 4 years respectively.

**2:3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following non-compliances with laws, rules, regulations and management decisions were observed.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
(a) Treasury Circular No.IAI/2002/02 of 28 November 2002	A Register for Computers valued at Rs.123,692,743 had not been maintained.
(b) Treasury Circular No.842 of 10 December 1978	A Register of Fixed Assets had not been maintained.
(c) Paragraph 06 of the Budget Circular No.156 dated 16 February 2012 and Circular No.03/2012 of the University Grants Commission dated 26 March 2012	According to the Circulars, unnecessary sundry expenses should be cut out. However, the printing of diaries in the year under review had increased by 185 percent as compared with that of the previous year and as such an additional expenditure of Rs.323,062 had to be incurred.

**3. Financial Review**

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**3.1 Financial Results**

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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.214,560,331 as compared with the deficit of Rs.96,632,029 for the preceding year. Accordingly, the financial results of the year under review had deteriorated by Rs.117,928,302. Even though the government grant and the other income for the year under review had increased by Rs.71,778,445 and Rs.9,673,408 respectively as compared with the preceding year, the contractual services, other recurrent expenditure, supplies and consumables and maintenance expenditure had increased by Rs.60,640,848 and these are the main reasons for the deterioration of financial results.

**4. Operating Review**

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**4:1 Performance**

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Cost incurred for the education of 3359 students during the year under review amounted to Rs.724,914,540 and the cost per student amounted to Rs.215,813. The academic cost for 3167 students during the preceding year amounted to Rs.575,946,435 and the cost per

student amounted to Rs.181,859. Accordingly the cost per student had increased by Rs.33,954 in the year under review as compared with the preceding year.

#### **4:2 Management Inefficiencies**

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Even though the lands valued at Rs.82,453,399 were under the guardianship of the University, action had not been taken to acquire these lands legally.

#### **4:3 Transactions of Contentious Nature**

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The following observations are made.

- (a) Eventhough a motor vehicle purchased by the University at Rs.6,000,000 had been shown under the fixed assets in the financial statements, according to the motor vehicle registration certificate, its ownership had been with to an outside person. Further, it was observed that it had been registered before one day from the date of purchase according to the receipt of the supplier.
- (b) Even though land and buildings valued at Rs.119,284,110 proposed to be transferred to the University had been brought to accounts as University assets, subsequently they had been vested by the University Grants Commission.

#### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) Six buildings with an extent of 7,926 square feet had been idle from the year 2012 to June 2014.
- (b) Machinery valued at Rs.388,164 had been idle from the year 2011 to June 2014.

#### **4:5 Deficiencies in Contract Administration**

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The following observations are made.

- (a) A sum of Rs.376,256 had been paid for the construction of a pavement in the road near the University sports ground to the extent of 1751 square feet and the following matters were observed in this regard.
  - (i) As action had not been taken to lay interlocking pavement blocks as specified, nearly 400 square feet at a cost of Rs.83,612 had been sunk. As the granite dust and sand mixed cement used for the shoulders of the pavement had not been properly connected with interlocking pavement blocks such shoulders were slid away from blocks.

- (ii) One contractor had forwarded quotations before quotations were called and 3 days prior to the approval of the BOQ prepared by the work's Engineer.
- (b) A sum of Rs.3,253,182 had been paid for the construction of the side wall for the protection of carpet road near sports ground at an estimated cost of Rs.3,882,094. Matters observed in that connection are as follows.
  - (i) As soil had not been bagged and measured before being used it, the accuracy of the payment of Rs.1,108,640 made for 852.08 cubic metres of soil was questionable. Similarly as the engineer had confirmed that soil had not been compacted in a manner to become the layer with thick soil and used inferior quality soil, the expenditure incurred thereon had been an uneconomic transaction.
  - (ii) The wall had not been constructed at a proper standard according to engineering plan and due to deficiencies in construction work, it had badly effected to the carpet road constructed by incurring a sum of Rs.18.01 million.

#### **4:6 Projects not Implemented**

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The Cabinet of Ministers had granted approval in the years 2005 and 2007 for the construction of an Information Technology Building and an Administration Building respectively. However, no any construction work of these buildings had been commenced even by August 2014 but a sum of Rs.3,314,508 had been spent for consultancy services.

#### **4:7 Uneconomic Transactions**

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The following observations are made.

- (a) An assignment had been given to an officer for the creation and installation of a data base for the University within 6 months from May 2012. Nevertheless, it had not been fulfilled and as such the payment of Rs.150,000 made thereon had become fruitless.
- (b) An appointment had been given on an assignment basis to a Retired Senior Assistant Registrar at a monthly allowance of Rs.45,000 and in addition to that a house at a monthly rental of Rs.400 to fulfill the duties of the Assistant Registrar of External Division. Although this appointment had been made in August of the year under review, he had assumed duties in September. As a result, the salary paid amounting to Rs.87,000 approximately to him for 58 days which he had not performed his duties had become uneconomic.

#### **4:8 Personnel Administration**

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The following observations are made.

- (a) There were 102 vacancies by 28 May 2014 which included the Bursar, Senior Assistant Registrar, and of 3 Professor posts in 2 faculties. Eventhough the Committee on Public Enterprises met on 10 October 2012 had directed to fill those vacancies, immediate action had not been taken to fill those vacancies.
- (b) A permanent appointment for the post of Assistant Registrar (Law and Documentation) which was vacant since 2012, the basic salary of which was Rs.26,020 had not been made. Instead, an officer had been recruited to perform such duties on an assignment basis by paying a monthly allowance of Rs.70,000. In addition to that allowance, the Board of Control had decided to provide telephones and residential facilities, free of charge.

## **5. Accountability and Good Governance**

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### **5:1 Corporate Plan**

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In terms of paragraph 5.1.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a review in respect of the operating results in the previous 3 years had not been included in the Corporate Plan prepared for the period from 2011 to 2015. Similarly, the financial values of the targets to be achieved had not been included in it and as such the Corporate Plan had not been prepared in order to evaluate the annual progress.

### **5:2 Action Plan**

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An action plan had not been prepared annually and an action plan prepared for the period of 5 years from 2011 to 2015 had been included in the Corporate Plan.

### **5:3 Audit and Management Committee**

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It was stated in the Public Enterprises Circular No.55 of 14 December 2010, that the audit committee should meet at least once in 3 months but only 3 meetings of Audit and Management Committee had been held during the year under review.

### **5:4 Budgetary Control**

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Revenue Expenditure had been incurred in excess of the estimated limits by Rs.24 million representing 130 per cent. Similarly, out of the provisions made for Capital Expenditure in the budget a sum of Rs.121 million or 30 per cent was saved and a sum of Rs.96 million had been spent over the provisions made for 3 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument of management control.

### **5:5 Unresolved Audit Paragraphs**

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The position of implementation of the directives given by the Committee on Public Enterprises held on 10 October and 06 November 2012 is given below.

- (a) Due to failure in proving charges made against an employee who had been dismissed from service and to take disciplinary action against a female labourer properly by the former Registrar, the responsible officers accomplished for the payment of compensation amounting to Rs.941,836 had not been determined.
- (b) As the fee of Rs.139,000 in respect of a bus hired for the participation of a Trade Union meeting paid in the private names of employees of the University was a fraud, action had not been taken to recover the money from the relevant officers.
- (c) Due to dispute in respect of the payment of Rs.1,321,189 made for the consultancy service of the proposed Information Technology Building, it had been referred to an arbitration. As the arbitration process was not finalized the construction of the building had been postponed.
- (d) Legal action had not been taken to recover the staff loan balance of Rs.1,993,082 due from an officer who had proceeded abroad on no pay leave and subsequently left the post.
- (e) The contract for the construction of the Panibharatha Open Art Gallery had been awarded without getting a security guarantee and the University had subsequently cancelled the agreement. As a result, a sum of Rs.1,008,816 recoverable from the contractor could not be recovered from his dues.

**06. Systems and Controls**

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Weaknesses in systems and control observed during course of audit were brought to the notice of the Vice Chancellor of the University from time to time by my audit queries. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Fixed Assets
- (c) Personnel Administration
- (d) Corporate and Action Plans