

## **South Eastern University of Sri Lanka - 2013**

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The audit of financial statements of the South Eastern 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 the 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. This report also to be considered as the detailed report in terms of Sub-section 108 (2) of the Universities Act.

### **1.2 Management's Responsibilities 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 the risks of material misstatement 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 the 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 the 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 qualified audit opinion.

### **1.4 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1. 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 South Eastern University of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards.

### **2.2. Comments on Financial Statements**

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#### **2.2.1. Accounting Deficiencies**

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The following accounting deficiencies were observed.

- (a) A sum of Rs. 11,999,504 paid for supplying and fixing of transformers had been shown as work in progress in the financial statements instead of being shown as assets although these works had been completed and handed over to the University on 07 May 2013.
- (b) Twenty two staff quarters valued at Rs. 148,871,450 constructed under the Kuwait Fund and vested to the University in the year 2012 had not been brought to the accounts.
- (c) A sum of Rs. 6,906,496 paid during the year under review as mobilization advance for construction of internal road had been added to the value of buildings instead of being separately shown as advance.

#### **2.2.2 Transactions not Supported by Adequate Authority.**

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Sums aggregating Rs. 788,093 had been paid during the year under review as honorarium payment for 10 members of the Management Committee of the Centre for External Degree Programme and Learning on monthly basis in addition to sitting allowance totalling Rs. 72,000 paid at the rate of Rs. 2,000 per sitting for each member of the committee. In this connection approval had not been obtained from the University Grants Commission.

”The Vice Chancellor had informed me that honorarium payment had been made with the recommendation of the Board of Management and the approval of the Governing Authority.”

### **2.3 Non - compliance with Laws, Rules Regulations and Management Decisions.**

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Instances of non- compliance with Laws, Rules Regulations and Management Decisions observed in audit are analyzed below.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non - compliance</b>
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(a) Section 109 of the Universities Act, No. 16	The audited financial statements and the report of the Auditor General for the year 2012 had not

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been published in the Government Gazette up to now.

(b) **Financial Regulations.(F.R)**

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(i) F.R. 138

Two payments aggregating Rs. 253,000 made during the year under review had not been certified by the officer responsible for certification.

(ii) F.R. 702(3)

Copies of 22 contract agreements valued at Rs. 105,706,404 had not been submitted to the Auditor General.

(c) Section 20.6 of Chapter X of Establishments Code for the University Grants Commission and Higher Educational Institutions

Thirteen non-academic and administrative staffs had obtained no - pay leaves for 223 days in the year under review. However, the University had not reported particulars of those no – pay leave monthly to the Auditor General in Form General 96.

**3. Financial Review**

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**3.1 Financial Results**

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According to the financial statements presented, the working of the University during the year under review had resulted in a deficit of Rs. 577,710,687 before taking into account the government grant for recurrent expenditure as compared with the corresponding deficit of Rs. 442,113,071 for the preceding year, thus showing a deterioration of Rs. 135,597,616 in the financial results. The decrease of other income by Rs. 3,009,901 and the increase of expenditure by Rs. 132,587,716 had been mainly attributed for this deterioration.

**4. Operating Review.**

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**4.1 Performance.**

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

(a) **Degree Courses**

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The number of students enrolled for each faculty and the number of students who left after obtaining degrees during the past 02 years are shown below.

Degree Courses Conducted	Number of Registered Students		Number of Students Obtained Degrees	
	2013	2012	2013	2012
Applied Science	243	273	33	43
Arts and Culture	418	128	134	179
Management and Commerce	376	354	167	106
Islamic and Arabic Language	231	261	107	88
Engineering	<u>102</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>1,370</u></b>	<b><u>1,016</u></b>	<b><u>441</u></b>	<b><u>416</u></b>

The following observations are made in this connection.

- (i) It was observed that enrolment of students to the faculty of Arts and Culture and the faculty of Management and Commerce during the year under review had increased by 226 per cent and 6 per cent respectively whereas, enrolment of student to the faculty of Applied Science and the Faculty of Islamic and Arabic Language during the year under review had decreased by 11.0 per cent and 11.5 per cent respectively.
- (ii) According to the information made available, the University had proposed to intake 250 students to the faculty of Arts and Culture. However, 418 students had been enrolled to the Faculty during the year under review and as such, 168 students had been enrolled more than the proposed limit.

(b) **Cost per Student.**

The total cost of each faculty of the University and the cost per student thereon for the year under review are shown below.

	Faculty of Applied Science	Faculty of Arts and Culture	Faculty of Islamic and Arabic Language	Faculty of Management and Commerce	Faculty of Engineering	Total
Total Cost (Rs.'000)	72,657	66,490	29,600	52,861	15,099	236,707
Total Number of Students	481	748	602	915	99	2845
Cost per Student (Rs.'000)	151	90	49	58	152	83

The highest cost per student amounting to Rs. 152,000 was reported at the Faculty of Engineering whilst the lowest cost per student amounting to Rs. 49,000 was reported at the Faculty of Islamic and Arabic Language.

#### **4.2 Results of Examinations**

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The following observations are made.

- (a) According to the University Grant Commission Circular No.636 dated 14 July 1995, examination results should be released within three months after the date of examination. However, it was observed in audit that the results of examination had been delayed by 02 months.
- (b) Out of 41 students registered for Master of Business Administration (MBA) during the academic year 2011/2012, only 09 students had conferred degrees up to date.

#### **4.3 Management Inefficiencies**

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The following observations are made.

- (a) The University had not taken action even up to the end of the year under review to recover a sum of Rs. 8,942,758 from a lecturer for breaching agreement even though the period of validity of the bond had expired on 10 January 2010.
- (b) A sum of Rs. 1,581,737 had remained outstanding relating to a Senior Lecturer who had vacated his post from 22 January 2010. However, the University had not taken proper action to recover this outstanding balance from his University Provident Fund or taking legal action against him.

#### **4.4 Procurement of Goods and Services.**

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##### **Purchase of Beds with Cupboards**

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The University had awarded the contract to a private supplier to purchase 245 beds with cupboards and a sum of Rs. 3,185,000 had been paid to the supplier up to 21 November 2013. The following observations are made in this connection.

- (a) According to the indent order made to the supplier, 145 beds with cupboards should have been supplied on or before 01 July 2013. However, the supplier had supplied those beds with cupboards with a delay of period ranging from 2 months to 5 months. Even though the supplier had supplied those beds with a considerable period of delay, the University was unable to recover liquidity damages from the supplier due to non-inclusion of provision in the indent order regarding the recovery of liquidity damages.

- (b) According to the Supplies Committee Meeting held on 27 March 2013, the Committee had approved the purchase of beds at the size of 6'.0" x 2'.5". However, quotations had been called for beds with cupboards at the size of 7'.6"x 2'.6" without considering the decision taken at the above mentioned Committee Meeting.
- (c) According to the specification, teak timber at the length of 2' – 2" (2" x 2") should be fixed at the middle of the bed. However, it was observed at the physical inspection carried out on 13 February 2014 that the supplier had supplied the beds without fixing such teak timber. As a result, approximately a sum of Rs. 98,000 had been overpaid to the supplier.
- (d) Even though there were several shortcomings in the beds and cupboards supplied by the supplier, the Works Engineer had certified the bills stating that the goods were supplied according to specifications and good condition. The shortcomings observed regarding those beds are given below.
- Instead of teak timber, shappu timber had been used for the center plank of the cupboard.
  - Finishing of cupboards was not smooth.
  - Handles and locks were not fixed for certain cupboards.

#### 4.5 Contract Administration

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##### (a) Construction of Playground

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The University had awarded a contract to a private firm for supplying and spreading of gravel to the playground and a sum of Rs. 749, 100 had been paid to the contractor up to 16 September 2013. The following matters were observed in this connection.

- (i) There was no business entity at the addresses given by two suppliers. Accordingly, it is obvious that the same supplier had submitted all three quotations in different names in order to obtaining maximum benefits from this contract.
- (ii) In terms of Procurement Guideline, the limit of authorization for granting approval for work estimate by the Vice Chancellor is less than Rs. 250,000. Therefore, the University had prepared an estimate for Rs. 249,572 for supplying and spreading 43 lorry loads of gravel. However, the University had purchased 129 lorry loads of gravel by paying Rs. 749,100 to complete the above mentioned work. Accordingly, it is obvious that the University had prepared the estimate by undervaluing the works in order to avoid obtaining approval from the Departmental Procurement Committee.
- (iii) According to the request made by the Physical Education Department of the University, the works for supplying and spreading of gravel should be completed on 16 September 2013 considering as a very urgent need. Even though the above work had been completed on 16 September 2013, the preparation of Volley Ball Court, Basketball Court and Tennis Court in the selected area had not been completed even up to now. Therefore, the amount spent for the above work had become a fruitless expenditure.

#### **(b) Reconstruction of Access Road**

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According to the contract agreement No. SEUSL/CW&P/195(1)/2013 dated 20 March 2013, the reconstruction of access road at the length of 1.2 Km had been awarded to M/S. Central Engineering Consultancy Bureau and a sum of Rs. 23,088,431 had been paid to the contractor up to 23 August 2013. The following matters were observed in this regard.

- (i) Even though the contract agreement had been entered into between the Vice Chancellor of the University and the contractor on 20 March 2013, the construction works were commenced before two months from the date of agreement.
- (ii) According to the contract agreement the construction works should have been completed before 09 April 2013. However, it had been completed on 09 May 2013. Therefore, a sum of Rs. 403,650 to be recovered as liquidity damages had not been recovered from the contractor in terms of the contract agreement.

#### **4.6 Granting of University Quarters to the Staff**

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The following matters were observed in this regard.

- (a) According to Section 6.6 of the Guidelines and Regulations of the University, officers to whom University quarters granted should enter into an agreement with the University. However, academic staff who occupied 12 family quarters and 08 bachelor quarters had not entered into an agreement with the University.
- (b) According to Section 05 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, rent for the occupation of quarters should be deducted from the salaries of the occupants. However, rent had not been deducted up to now from the academic staff who occupied University quarters.
- (c) The University had paid electricity charges amounting to Rs. 902,741 for the period from January 2010 to November 2013 for the above mentioned University Quarters. However, proper action had not been taken to recover the electricity charges from the occupants concerned up to the date of audit on 11 April 2014 in terms of Section 5.8 of Chapter XIX of the Establishments Code.
- (d) A Senior Lecturer who occupied the University quarters had fixed an air conditioner to the quarters by his own money without obtaining prior approval from the Registrar of the University in terms of Section 8.3 of the Guidelines and Regulations of the University.

#### **4.7 Library Administration**

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It was observed in audit that the books borrowed by the academic and non academic staff had been returned with a long delay ranging from 01 year to 04 years. However, action had not been taken to calculate and recover the penalties in terms of Meeting Minutes of the Senate held on 27 July 2004.

#### **4.8 Human Resources Management**

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The following observations are made

- (a) The University had not taken action even end of the year under review to fill 88 vacancies.
- (b) There were 08 vacancies in key posts such as Professors, Associate Professors in 05 Faculties. However, the University had not taken action to fill those vacancies which could affect the educational activities of the students.

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

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##### **5.1 Tabling of Annual Report**

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Annual report for the year 2012 had not been tabled in Parliament up to 03 June 2014.

##### **5.2 Budgetary Control**

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Variances ranging from 52 per cent to 58 per cent were observed between the budgeted expenditure and actual expenditure, thus indicating that the Budget had not been made use of as an effective instrument of management control.

#### **6. Systems and Controls**

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

- (a) Accounting
- (b) Recovery of Loans and Advances
- (c) Control over Fixed Assets
- (d) Maintenance of Registers