

Sri Lanka Wayamba University - 2013

The audit of financial statements of the Sri Lanka Wayamba University 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 Section 13(1) of the Finance Act, No.38 of 1971 and 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. A detailed report in terms of Sub –section 108(2) of the Universities Act will be issued in due course.

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 risks 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 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 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 Sri Lanka Wayamba University 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 Accounting Deficiencies

The following deficiencies were observed.

- (a) Action had not been taken to adjust the value of materials totalling Rs.576.,206 comprising the value of 108 types of goods amounting to Rs.323,664 the existence of which was not established in accordance with the report of the Board of Survey for the year 2012 and the value of materials amounting to Rs.252,542 issued by the main stores for the two external courses in the accounts.
- (b) Instead of accounting the expenditure totalling Rs.598,719 incurred from the University Fund for the various projects and external courses as receivables to the University, it had been brought to accounts as an expenditure for the year under review.
- (c) Action had not been taken to revalue and account 10 items of fixed assets costing Rs.95,864,363 which fully depreciated and still being used for operational activities of the University.

- (d) Interest of Rs.130,000 receivable as at 31 December 2013 on investment in fixed deposits amounting to Rs.1,000,000 given by an external party to the University had not been shown in the financial statements.

2:2:2 Unexplained Differences

According to the statement of financial performance, the depreciation for the year amounted to Rs.120,963,189 and the value as per the related schedule amounted to Rs.119,689,250 thus indicating a difference of Rs.1,273,949. Further according to the cash flow statement presented, additions to fixed assets had been reported as Rs.100,561,348 whereas the value of it as per the relevant schedule amounted to Rs.99,287,399 thus indicating a difference of Rs.1,273,949.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Advances totalling Rs.4,607,150 comprising the advances of Rs.929,684 given to purchase library books and magazines from 1996 to 2012, contract advances of Rs.3,136,709 given in the year 2011, service advances of Rs.340,206 given prior to 02 to 08 years and advances of Rs.200,551 given prior to the year 2009 had not been settled even by 31 December 2013.
- (b) Action had not been taken to settle the debtor balances of Rs.74,545 and the creditors balances of Rs.16,187 remained outstanding for a long period even by the end of the year under review.
- (c) The accounts payable balance of Rs.25,992,699 as at 31 December 2013 had included a balance of Rs.3,123,018 remained outstanding for over one year.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Establishments Code for Universities and Higher Educational Institutes Section 24.8 of Chapter 3	Eventhough the full service period of temporary lecturers should not be more than 2 years, contrary to that, appointments had been given to 128 temporary lecturers for more than 2 years.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 271(2)(a)(b)	Action in terms of Financial Regulations had not been taken in respect of unpaid salaries of Rs.342,766 for the period from 1995 to 31 December 2012.
(ii) Financial Regulation 371(2)(b)	Although the maximum sub imprest should be given at a time is Rs.20,000, in excess of that limit, a sum of Rs,.567,050 had been given as advances in 09 instances.
(iii) Financial Regulations 396(d)	Action in terms of Financial Regulations had not been taken in respect of 47 cheques valued at Rs.358,180 which had not been presented for payments elapsed and for more than 6 months
(iv) Financial Regulation 571(2)	Action had not been taken in terms of Financial Regulations in respect of 110 sundry deposits valued at Rs.1,308,558 elapsed for more than 2 years from the date of deposit.

- (v) Financial Regulation 1645 and 1646
- Daily Running Charts and Monthly Performance Summaries required to confirm the fuel expenditure of Rs.604,866 incurred on fuel issued to 6 vehicles used by the University during the year under review were not made available for audit as per regulations.
- (c) Paragraph 3.13 of the Public Administration Circular No.41/90 dated 10 October 1990
- Without obtaining the report of a Mechanical Engineer, a sum of Rs.691,665 had been paid for the repair of motor vehicles in 9 instances during the year under review.
- (d) Procurement Guidelines of 2006 and the Manual.
- (i) Guidelines 3.5 and 9.3, and paragraph 2.14.1 of procurement Manuel and Financial Regulation 135.
- Authority limits of the University under the Procurement Guidelines and Financial Regulation 135 had been violated in respect of motor vehicle repairs expenses of Rs.439,065 carried out in 2 instances.
- (ii) Paragraph 8.13.4 of Procurement Guidelines and the Public Finance Circular No.2/2012 of 07 August 2012
- A sum of Rs.3,786,021 had been paid for variations up to 13.78 per cent of the contract value in the construction of the stage II phase II of the Faculty of Applied Sciences building only on the recommendation of the State Engineering Corporation without obtaining the approval of the Secretary to the Ministry of Higher Education as the Chief Accounting Officer.
- (e) National Budget Circular No.150 of 07 December 2010
- Eventhough the hired vehicles should be disposed after purchasing the new vehicles, a sum of Rs.1,821,666 had been paid for the hired vehicles by the University during the year under review though the University had purchased 5 new vehicles.

- (f) Paragraph 03(b) of Management Services Circular No.44 dated 10 March 2011 of the Department of Management Services of the General Treasury.
- A sum of Rs.1,502,392 had been paid to 11 Lecturers in the year under review as research allowances. Eventhough the final research report carried out and the publication report at the end of 2 years had not been presented to the relevant parties, the relevant allowance had been continuously paid even after the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the University for the year ended 31 December 2013 had resulted in a deficit of Rs.135,853,000 as compared with the deficit of Rs.125,112,000 in the financial results of the preceding year. Accordingly a deterioration of Rs.10,741,000 was observed in the financial results of the year under review.

3:2 Analytical Financial Review

The following observations are made.

(a) Financial Performance

The following matters were observed in respect of the financial performance of the University.

- (i) Eventhough the income earned by the University during the year under review had improved by 29 per cent, the investment income included therein had dropped by Rs.186,000 or 547 percent as compared with that of the previous year. However, the value of investments had increased by 26 per cent as compared with the previous year. Even though, an interest income had been earned in the previous year by investing the surplus balances in the current accounts in short terms, this procedure had not been adopted during the year under review and as such this situation had arisen.

- (ii) The total expenditure of the University in the year under review had increased by 22 per cent as compared with the previous year, and the travelling expenses included there in had increased from Rs.875,000 to 1,763,000 by 101 per cent.
- (iii) As compared with the previous year, salaries and wages, travelling and subsistence, supplies and consumables, contractual services, other recurrent expenditure and bursaries had increased by Rs.117,874,295 and their percentages ranged from 15 per cent to 101 per cent

(b) Financial Position

The following observations are made in respect of the financial position of the University.

- (i) Current assets as at the end of the year under review had increased by 132 per cent as compared with that of the previous year. The increases of capital advance balance from Rs.59 million to Rs.173 million by 193 per cent had been the reasons therefor.
- (ii) Current liabilities had increased by 98 per cent as compared with that of the previous year. The increase of capital grants for works in progress by 67 per cent had been the main reasons for this.
- (iii) The Accumulated Fund had continuously diminished and it had further diminished by Rs.134 million as at the end of the year under review. It represented 19 per cent as compared with the previous year.

3.3 Legal cases initiated against the University

An agreement had been entered into with the University in the year 2012 at a contract value of Rs.27,000,952 for the construction of a single hostel at Kuliypitiya premises. A case had been filed in the courts on 17 March 2014 against the University by a contractor who had stopped construction works half way, asking for the suspension of the recovery of his bonds valued at Rs.6,000,000

4. Operational Review

4.1 Performance

(a) Cost per Student

Information regarding the expenditure incurred for each faculty, number of students and the cost per student in the year under review and the previous year is given below.

Faculty	Particulars	Previous Year	Year under review	Increase as a percentage
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		2012	2013	
		Rs.	Rs.	
(i) Faculty of Business Studies and Finance	Expenditure	49,046,407	73,543,884	50
	- Number of students	1,042	1,312	26
	- Cost per student	47,069	56,055	19
(ii) Faculty of Applied Sciences	Expenditure	59,621,296	74,208,889	24
	- Number of students	375	428	14
	- Cost per student	158,990	173,385	09
(iii) Faculty of Agriculture and Plantation Management	Expenditure	65,611,393	84,163,292	28
	-Number of Students	382	439	15
	Cost per Student	171,758	191,716	12
(iv) Faculty of Livestock, Fisheries and Nutrition Sciences	Expenditure	66,078,130	82,539,376	25
	-Number of Students	314	393	25
	Cost per Student	210,440	210,024	-

The following observations are made in this regard.

- (i) Cost per student of the Faculty of Livestock, Fisheries and Nutrition and the Faculty of Agriculture and Plantation Management in the year 2013 had been at a high level as

compared with that of the other Faculties, representing 34 per cent and 30 per cent respectively.

(ii) Cost per student of the Faculty of Business Studies and Finance, Faculty of Applied Sciences and the Faculty of Agriculture and Plantation Management had been increased by 19 per cent, 09 per cent and 12 per cent respectively as compared with that of the previous year.

(b) Conducting Examinations and Issue of Results

The number of students sat for the examinations held by 4 Faculties of the University in the year 2013 amounted to 397 and the following observations are made in this connection.

(i) Nearly thirteen months had been taken to release the examination results conducted in the year 2013 by the Faculty of Livestock, Fisheries and Nutrition Science of the University and it had taken nearly 8 months to release the results by the Faculty of Business Studies and Finance.

(ii) Approximately 11 per cent of the students sat for the examinations in the year 2013 conducted by the Faculty of Applied Sciences and the Faculty of Agriculture and Plantation Management had failed the examinations. Failures in the examinations held by the Faculty of Business Studies and Finance and the Faculty of Livestock, Fisheries and Nutrition, had been 6 per cent and 5 per cent respectively.

(c) Out of 1037 students registered in 4 faculties of Wayamba University for the academic year 2011/2012, 122 students or nearly 12 per cent had transferred to other Universities. Reason for the transfers was that an effective course of action had not been taken to utilize the facilities allocated to the students.

(d) The Standard ratio between the number of students in the Faculty of Business Studies and Finance of the Sri Lanka Wayamba University and the number of academic staff should be 18:1 but the actual ratio was 37:1 Similarly, such standard ratio in the Faculty of Agriculture and Planation Management should be 10:1 but the actual ratio had been 13.1. The standard ratio in the other 2 faculties had increased by a smaller rate.

4.2 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to recover a sum of Rs.1,542,625 due from 2 lecturers who were in the University service and proceeded abroad and who breached the agreements, even during the year under review.
- (b) Action had not been taken by the management to avoid deficiencies such as certain disagreements between the notes shown in the register in which description of lectures delivered by visiting lecturers were recorded and the notes stated in their payment vouchers, non-placing of signatures in the students' signature registers and non-rendition of students' signature registers to audit.
- (c) In making payments for service agreements relating to the servicing photocopy machines of the University, payments had to be made to the servicing organizations prior to obtain the service and as such there were instances where such agreements had not been entered into. Eventhough a sum of Rs.821,571 had been paid for providing services for the year under review, relevant authorities had not taken action in respect of instances where service organizations had not come for servicing as per the agreements.
- (d) Maturity dates of 4 fixed deposits totalling Rs.1,000,000 at Rs.250,000 per each deposit, opened by the accounts division of Makandura premises on 06 May 2011 under Outreach Centre Fund had not been indicated and the rate of interest stated as 5 per cent. Eventhough the bank interest rate had been at a high level during the past few years, it was not observed that the University had not considered this in the investments of that money.
- (e) A building had been taken on rent to accommodate 60 students at an annual rental of Rs.2,700,000 and as such the resident rental cost per student stood at Rs.45,000. This was a 2 storied building and 75 students could be accommodated in one floor. Therefore it was observed that renting of 2 storied building for 60 students had been a management inefficiency. Further, this 2 storied building had been taken on rent in the previous year separately in each flow. The rent per floor paid was Rs.1,242,000.

4:3 Operating Inefficiencies

Eventhough the number of hours allocated for lecturing of two visiting lecturers in the Faculty of Business Studies and Finance had been 330, they had covered only 210.5 hours. As they had taught less than 119.5 hours, achieving the targets planned in order to gain students' knowledge of the subject matters could not be ruled out in audit.

4.4 Transactions of Contentious Nature

The engineering estimate of the construction contract of the outdoor theatre at Kuliypitiya premises amounted to Rs.7,736,775. Without doing the procurements through the Ministry Procurement Committee, procurements had been made under 3 separate stages in order to make procurements by the University Procurement Committee.

4.5 Apparent Irregularities

Provisions in the Management Services Circular No.45 dated 07 April 2011 of the Secretary to the Treasury in respect of the proposed research allowance had been entirely violated by the lecturers. Accordingly, the research allowance of Rs.176,504 and Rs.191,672 had been paid to a lecturer and a professor respectively attached to the faculty of Livestock, Fisheries and Nutritions Science of the University who obtained sums of Rs.5,000,000 and Rs.4,630,522 in the years 2011 and 2012 respectively from the National Research Institute.

4:6 Identified Losses

Five houses had been obtained by the University on rent basis for Rs.1,656,000 and only a sum of Rs.175,200 had been recovered from the occupants as house rents in accordance with the decisions taken by the staff hostel committee. Accordingly, the additional cost to be incurred by the University amounted to Rs.1,480,800 per annum. Had the economic rent been recovered this loss could have been minimized.

4:7 Uneconomic Transactions

The following observations are made.

- (a) In leasing the students' hostel in the Kuliypitiya premises, a sum of Rs.167,000 had been paid in excess of its assessed value.

- (b) Although the responsibility of the management is to operate its activities at a minimum cost, an additional cost had to be incurred by the University as the buildings which were used for more than one year had been obtained on monthly rental basis instead of obtaining on an annually assessed rental basis in ascertaining the buildings on rental basis.

4:8 Weaknesses in Contract Administration

The following observations are made.

(a) **Construction of the Bachelor Academic Staff Quarters in the Makandura Premises.**

- (i) Even though the above contract should have been completed by August 2012, the completion work report had been submitted in March 2013. The extension of period thereon had been approved on 26 June 2014.
- (ii) In making payments for a construction contract, a certain amount as on account payment can be paid. However, a sum of Rs.1,911,073 had been paid on 23 December 2013 without measurement sheets of the contract.
- (iii) According to the contract agreement conditions relating to price escalations had not been clearly stated but a sum of Rs.1,785,119 had been paid for price escalations.

(b) **Work in Progress**

According to the financial statements 26 activities valued at Rs.291,447,873 had been shown as works in progress as at the end of the year under review. The balance relating to 5 activities valued at Rs.3,270,150 shown as at 31 December 2012 had not been changed and as a result it was not observed that there was progress of those activities during the year under review as well.

4:9 Personnel Administration

The following observations are made in respect of the approved and actual cadre as at 31 December 2013 of the Wayamba University.

- (a) Eventhough the approved academic staff of the University was 272, the actual cadre had been 219. As there were no lecturers with special skills in certain academic divisions for certain subjects, 44 visiting lecturers had been deployed and a sum of Rs.2,928,925 had been paid as salaries to them during the year under review.
- (b) According to the approved cadre, there were 26 vacancies in the minor staff. Eventhough it did not badly affected day to day activities 15 labourers had been outsourced from an external man power supply agency giving various reasons and a sum of Rs.4,765,596 had been paid as their salaries during the year under review.
- (c) Five temporary clerks in respect of clerical and allied services had been informally recruited.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

- (a) A corporate plan had been prepared by the University to cover the period from 2010 – 2015 and new Corporate Plan had been prepared during the year under review to cover the period from 2013 – 2017. In preparing the new Corporate Plan, the following targets and functions which had been included in the previous Corporate Plan and direct connection with academic activities of the University had been neglected.
- (b) According to the new Corporate Plan for the period 2013 - 2017 presented by Wayamba University, it was expected to increase the annual self-generating financial investments from 15 per cent to 25 per cent. Nevertheless, activities proposed to achieve that objective such as enrollment of local and foreign students of fees charging courses and extending the expertise knowledge of the staff to external society had not been carried out. Further, the proposed financial provision of Rs.4 million had also not been made on this.

5.2 Action Plan

- (a) A proper action plan for the year had not been prepared to achieve the objectives of the University and only an annual action plan describing the manner of incurring recurrent and capital expenditure in quarterly basis had been presented.

(b) Action taken in accordance with the Action Plan

The following observations are made in this regard.

- (i) According to the action plan, a provision of Rs.59,500,000 had been made for the year under review for the rehabilitation and improvement of buildings, and items of works expected to be carried out by that provision were not planned. A sum of Rs.31,816,149 had been spent for 52 items of various works during the year under review which represented 64 percent of the provision made thereon.
- (ii) Eventhough it was expected to perform the work of building constructions valued at Rs.242,000,000, it was observed that their progress was not at a satisfactory level. Accordingly, 100 per cent out of the provisions received for the construction of Makandura Health Centre, 71.16 per cent of the provision made for the construction of the Applied Science Faculty building, 67.57 per cent of the provision made for the Makandura Bachelor Quarters etc, totalling Rs.16,807,559 for 9 work items had been saved. Further, expenditure had been incurred in excess of the provision by 328.77 per cent made for the construction of Phase II of the Fisheries and Livestock Nutritions Science Faculty building.

5.3 Budgetary Control

Over estimations had been prepared relating to 32 expenditure items and the expenditure had been incurred in excess of the budgetary provision relating to 27 expenditure items. The entire provision of 4 expenditure items had not been spent. As such it was not observed that the annual budget had been made use of as an effective instrument of financial control by the University.

5.4 Tabling of Annual Reports

In terms of Section 6.5.3 of Public Enterprises Circular No. PED/12 dated 02 June 2003 and Section 14(1) of the Finance Act No.38 of 1971, the annual report of the University should be tabled in parliament within 150 days after the end of the relevant year. However, the University had not taken action accordingly.

5.5 Unresolved Audit Paragraphs

A sum of Rs.99,882 had been paid to a lecturer for the presentation of one project proposal from the Consolidated Fund during the period 2010 – 2011 by the Vayamba University and the research report thereon should have been presented by the end of February 2013 but it had not been presented even by 30 June 2014.

5.6 Fulfillment of Environmental and Social Responsibility

As the degree conferred by the Faculty of Applied Sciences is not a special degree, job opportunities in this faculty or any other Universities academic staff for 40 graduates passed out from this faculty with first classes had been deprived. Non - commencing opening a Bachelor of Science (Special) Course by the Wayamba University had been the reasons therefor. Due to this reasons 3 Special B.Sc Courses had been commenced by the University since the academic year 2011/2012.

6. Systems and Controls

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

- (a) Budget
- (b) Purchase of Library books and Magazines
- (c) Construction Contracts
- (d) Payment of Advances
- (e) Conducting External Courses
- (f) Stock Control
- (g) Personnel
- (h) Procurement Procedure

