

## **University of Kelaniya - 2013**

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The audit of financial statements of the University of Kelaniya 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 Funds and cash flow statement and a summary of significant accounting policies and other explanatory notes 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.

### **1.2 Management's Responsibility for Financial Statements**

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The 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 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 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 financial statements. Sub-sections (3) and (4) of the 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 described 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 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 University of Kelaniya 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 Accounting Deficiencies**  
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The following observations are made.

- (a) Instead of crediting the interest income amounting to Rs. 11,389,747 received by investing money (Repurchase Agreement) owned by the University to the income of the University, sums of Rs. 11,234,063 and Rs. 155,684 had been credited to the University Enhancement Fund and to the Vice Chancellor's Fund respectively without a Treasury approval.
- (b) Value of 03 plots of lands, 03 acres in extent included in the Register of Fixed Assets had not been assessed and brought to account.
- (c) Income from fee levying courses and the direct credits to 02 bank accounts totalling Rs. 883,070 had not been identified and the said amount had been credited to the "Other Payables Account" as at 31 December of the year under review.
- (d) The non-refundable library deposits amounting to Rs.13,481,417 that existed as at 31 December in the year under review had been shown under Reserves as deposits of the Faculty Offices and the Main Library, instead of being taken to the income of the University.

**2.2.2 Unreconciled Control Accounts**  
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The difference of Rs. 557,481 between the ledger balance of staff loans and advances and the schedule relating to that, had been adjusted to the Loans and Advances Account and included in a Temporary Suspense Account named Other Payables Account without being identified specifically.

2.3 **Non – compliance with Laws, Rules, Regulations and Management Decisions**

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

| Reference to Laws, Rules and Regulations<br>-----   | Non - compliance<br>-----  |
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| (a) Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka  | No action had been taken even by 31 December of the year under review to settle the advances amounting to Rs. 449,250 paid in the year 2011 and 2012 in relating to researches completed at present, miscellaneous advances of Rs. 250,000 and disability advances of Rs. 363,782.   |
| (b) Section 3(1) of Chapter XX and Section 1.6.1 of Chapter X of the Establishments Code for the University Grants Commission and Institutions of Higher Education. | Attendance Register and Leave Register of the academic staff had not been presented to audit to examine the accuracy of salaries and allowances amounting to Rs. 1,047,063,053 paid to the academic staff in the year under review.  |
| (c) Public Enterprises Circular No.95 of 14 June 1994.  | (i) Even though only the allowances approved specifically by the Cabinet of Ministers, Ministry of Public Administration or the Treasury could be paid with the approval of the Board of Governors, contrary to that, allowances of Rs. 6,188,774 had been paid to the staff of seminars including the Lecturers for conducting seminars at the Centre for Distance and Continuing Education only on the approval of the Board of Governors.<br><br>(ii) A sum of Rs. 190,000 had been paid from January of the year under review to July 2014 to an officer at the rate of Rs. 10,000 per month for repairing equipment of the Physical Science Division on the approval of the Board of Governors.<br><br>(iii) Allowances amounting to Rs. 165,000 had been paid to the officers of the University in the year under review in connection with the Bachelor of Arts Degree Programme, Singapore 2011/2012 conducted in the year under review at rates determined based on the approval of the Board of Governors. |

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| (d) Public Administration Circular No. 13/2008(iv) dated 09 February 2011 | Fuel allowances amounting to Rs. 484,421 had been paid for the year under review for two Deans and the Librarian contrary to the provisions of the circular.                   |
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| (e) Circulars of the University Grants Commission                         |  |
| (i) Circular No. 981 of 23 April 2012.                                    | Contrary to conditions of the circular, a sum of Rs. 5,500 had been paid for typing of examination papers by a typist.   |
| (ii) Circular No. 861 of 26 April 2005.                                   | Contrary to the circular, charges had been paid for purposes such as setting papers, moderating and paper marking for the Bachelor of Arts (General) Degree (Overseas) Course. |

### 3. **Financial Review**

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#### 3.1 **Financial Results**

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According to the Financial Statements presented, the financial result of the University for the year ended 31 December 2013, had been a surplus of Rs.226,857,577 and the surplus of the preceding year had been Rs. 148,776,150. Increase of the income of external examinations by Rs. 70,799,932 and the registration fee of the foreign undergraduates by Rs. 22,103,142 had specially attributed to the increase of the surplus by Rs. 78,081,427 in the year under review as compared with the preceding year.

### 4. **Operating Review**

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#### 4.1 **Academic Performance**

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The following observations are made.

- (a) Comparison of the academic years 2010 and 2011 of the Open and Distance Learning Centre revealed an improvement of 75 per cent in the total registration of students in the year 2011. However, the registration of students for the academic year 2012 had not been completed up to 30 September 2014.
- (b) According to information presented to audit, the dates for the release of the results of the 11 degree examinations held in years 2012 and 2013 had not been determined. Out of that the results of 03 degree examinations only had been released as at 31 December 2013. As such, there is a long delay in the release of examinations results. Consequently about 41,108 students who sat 08 degree examinations of which results had been released, had been awaiting results. As such the delay had an adverse impact on 62 per cent of the students.

(c) **Research Progress**

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(i) **Utilization of Internal Research Grants and Progress**  
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A sum of Rs.6 million at the rate of Rs.1 million per Faculty had been provided from the Consolidated Fund for internal research grants for the year 2013 and the Research Committee had approved a sum of Rs.3,051,000 for 12 research projects for the year 2013. The utilization out of the said grant as at the end of the year under review had been Rs. 1,304,269 or 43 per cent. No provisions whatsoever provided for the Faculty of Commerce and Management and the Faculty of Postgraduate Studies had been utilized. Out of the 12 research projects approved for the year under review, the progress reports of researches had been presented only by 04 Lecturers.

(ii) **External Research Grants and Utilization**  
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It was observed that the scholarship funds amounting to Rs. 14,115,614 granted to Lecturers in various fields had been brought forward in accounts continuously, without being utilized.

(iii) **Payment of Research Allowances**  
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Provisions amounting to Rs.98.5 million had been made for the research allowances for the year 2013 relating to 548 officers in 07 Divisions of the University and out of that, a sum of Rs. 97.76 million had been paid as research allowances. A proper evaluation of the progress of the researches had not been carried out as at 31 December 2013.

- (d) According to the criteria for world grading of Universities, the research criteria are an important factor. The University of Kelaniya which occupied position 3430 in the World Grading in the year 2013 had improved to position 3194 by July 2014.

**4.2 Management Inefficiencies**  
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The following observations are made.

- (a) The CCTV camera system installed in the main Library had not functioned since September 2010. No action had been taken up to August 2014 to repair it or install the new system.
- (b) Even though a sum of Rs. 620,635 spent for external researches from the University Fund, should be reimbursed from respective institutions, no action had been taken to recover the said amount up to date.

#### **4.3 Operating Inefficiencies**

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The following observations are made.

- (a) A balance amounting to Rs. 5,699,883 remained as at 31 December of the year under review in the interest income accounts from Scholarship Funds. Out of that balances of Rs. 4,779,429 in 23 Accounts had not been utilized for the achievement of objectives from the year 2009.
- (b) Funds amounting Rs. 6,275,204 granted for special purposes from the year 2011 had not been utilized for respective purposes.
- (c) A University Enhancement Fund had been established without an approval during the year under review and a sum of Rs. 69,617,381 had been credited to the said Fund. Even though a sum of Rs. 58,383,318 from the General Reserve had been credited to this Fund, the relevant approval had not been obtained to establish such a Fund and the objectives of establishment of the Fund or the rules and regulations too had not been formulated for the control of the Fund.
- (d) Five hundred and sixty books valued at Rs. 335,523 issued to non-academic staff and students as at 31 December in the year under review remained without being returned.
- (e) A saving of Rs. 99,775 from grants provided before the year 2000 by different institutions for external researches had been credited to the sundry income on the recommendation of the Finance Committee without being refunded to those institutions.

#### **4.4 Staff Administration**

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Comparison of the approved cadre and the actual cadre as at 31 December of the year under review, revealed 231 vacancies.

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

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#### **5.1 Action Plan**

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The progress of the achievement of the targets of the Action Plan for the year under review had been 57 per cent as at 30 June 2013 and Progress reports had not been prepared by evaluating purposes as at 31 December 2013.

**6. Systems and Controls**  
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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) Accounting
- (b) Fixed Assets Control
- (c) Library Control
- (d) Motor Vehicles Control
- (e) Contracts Control