

Bhiksu University of Sri Lanka - 2014

The audit of financial statements of the Bhiksu University of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014, 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 Section 46 of the Bhiksu University of Sri Lanka (Amendment) Act, No. 15 of 2012 amended by the Buddashrawaka Bhiksu University Act, No. 26 of 1996. My comments and observations which I consider should be published with the Annual Report of the University in terms of Section 14(2)(c) of the Finance Act appear in this report.

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 Auditing 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 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 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 Bhiksu University of Sri Lanka as at 31 December 2014 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 Sri Lanka Public Sector Accounting Standards

Revenue and expenses should not be set off in terms of Sri Lanka Public Sector Accounting Standard 01. However, instead of being shown a total of Rs. 795,658 including the rent income from vehicles received in the year under review and fees charged from members participated at the National Buddhist Conference of the University, as revenue, it had been shown by deducting from expenses.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Out of the Mobilization Advance amounting to Rs. 487,542 granted for repairs of office buildings, a sum of Rs. 112,402 had been recovered from Bills for part payments. However, the Mobilization Advances had been overstated by Rs.112,402 and the Work in Progress Account had been understated by the same amount due to accounting the entire amount granted as advances.
- (b) A sum of Rs. 177,350 payable to labourers, had not been brought to account.
- (c) The depreciation of the New Water Supply Scheme for the year 2014 had been understated by Rs.237,272 in the account. As a result, the deficit of the year had been understated and the net value of the assets had been overstated by the same amount in the financial statements.
- (d) The following observations were made in examining the cash flow statement prepared for the year 2014 by the University.

- (i) Deduction of the interest income amounting to Rs.860,618 for the year under review from the deficit of the year under the operating activities and the interest income received in cash had not been adjusted as a cash inflow under investment activities.
- (ii) A sum of Rs.71,781 received from sale of assets in the year under review had not been adjusted as a cash flows from investing activities in the cash flow statement.
- (e) Instead of being written off the under provisions for expenditure amounting to Rs.300,217 against the income of the year under review, it had been adjusted to the profit of the preceding year due to errors of the estimate made in the preceding year.

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

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

Reference to Laws, Rules and Regulations

Non-Compliance

(a) Procurement Guidelines of 2006

(i) Guideline 1.2

Landscaping had been assigned to the State Engineering Corporation and a sum of Rs. 548,833 had been paid thereon without calling competitive biddings and providing opportunity for eligible interested parties to participate in procurement.

(ii) Guideline 5.3.4 (d)

No contract shall be awarded to any contractor or supplier who had been engaged by the Procurement Entity to provide consulting services for the design or preparation of bidding documents for the same contract. Nevertheless, the contract for providing consulting services had been awarded to the contractor, the State Engineering Corporation for 03 ongoing capital projects in the year under review and a sum of Rs.26,431,776 had been paid thereon.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 772

No action in terms of Financial Regulations had been taken in connection with the stock of articles recommended by the Boards of Survey as unserviceable articles valued at Rs.47,327 existing since many years.

2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) All payments to the public servants should be in line with the relevant circulars in terms of Section 2.1.5 of the National Budget Circular No. 1/2014 and any payment deviating from the circulars must be made only after obtaining the relevant approval with the recommendation of the Secretary to the Line Ministry and the concurrence of the Treasury. Contrary to that, additional allowances totalling Rs.873,775 had been paid in the year 2014 to the academic and non-academic staff of the University for involving in activities of external courses of the Bhiksu University of Sri Lanka without a proper approval.

- (b) Action should be taken to enroll 10 per cent additional number of students based on the academic year 2011/2012 in terms of the University Grants Commission Circular No. 07/2014 of 17 July 2014 issued based on the Letter No. DMS/1528(A) of 01 July 2014 of the Director General of the Department of Management Services of the Ministry of Finance and Planning. Moreover, it had been informed that if the demand of the students thereto will decrease, action should be taken to plan an innovative programme required to increase the demand and an additional allowance of 20 per cent from the basic salary could be paid for the academic and non-academic staff of the University as an encouragement thereon. However, the Bhiksu University had not taken action accordingly and despite decreasing the number of student bhikkus enrolled in the academic year 2013/2014 of the University by 14.5 per cent as compared with the academic year 2011/2012 and not planning a programme required to increase the enrolments of the students in the future, an allowance totalling Rs.8,451,904 had been paid from July to December of the year 2014 by the University to 95 officers of the academic and non-academic staff of the University, who are not entitled to obtain additional allowances of 20 per cent.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University for the year ended 31 December 2014 had resulted in a deficit of Rs.4,615,312 as against a surplus of Rs.1,496,395 for the preceding year, thus indicating a deterioration of Rs.6,111,707 in the financial result. Increase in provisions for depreciation for the fixed assets of the year under review by Rs. 14,457,161 and increase in gratuity payments and expenditure on capacity building by Rs.9,611,912 had mainly attributed to the deficit of the year.

3.2 Operating Inefficiencies

The following observations are made.

- (a) Unusual increases in expenditure had incurred from 27 per cent to 50 per cent relating to 07 items of expenditure of the Bhiksu University of Sri Lanka in the year 2014 as compared with the year 2013.
- (b) Even though the increase in total expenditure of the Bhiksu University of Sri Lanka in the year 2013 and 2014 as compared with the year 2012 had been 283 per cent and 300 per cent respectively, as compared with that an improvement in the number of students had not been seen. That is, enrollment of students for the year 2014 had decreased by 15 per cent and evidence had not been made available to audit that the administration of the University had taken adequate measures to increase the enrollment of students.

4. Operating Review

4.1 Management Inefficiencies

Action had not been taken even by the end of the year to recover a sum of Rs.363,628 recoverable from a bhikku of the staff of the University on the breach of agreements due to non-reporting for duty on due date after ending the study leave obtained by him.

4.2 Underutilization of Funds

The average balance in the bank account maintained for transactions of the external courses of the University had exceeded Rs.01 million throughout the year and attention had not been paid to make that in an effective investment.

4.3 Idle and Underutilized Assets

A sum of Rs.4,067,078 received as donations and gifts for the University from the inception of the University up to the year 2013, a sum of Rs.91,100 received in the year under review and the interest income amounting to Rs.571,227 received from the investment of those amounts had been invested as fixed deposits and those funds had not been utilized for activities relating to the objectives of obtaining donations.

4.4 Weaknesses in the Contract Administration

The following weaknesses in contract administration were observed relating to the construction of the library building for the University at a cost of Rs.300 million.

- (a) The procurement method had been selected on Turnkey Basis contrary to the Procurement Guidelines 3.10 and 3.11.
- (b) Even though contractors should be selected based on quotations submitted by 05 qualified bidders in terms of the Decision of the Cabinet of Ministers on 06 December 2012 , the contract had been awarded for a sum of Rs.298,273,258 representing 99.4 per cent of the

estimated value of Rs.300,000,000 without a competition and based only on the quotations of the contractor to whom the constructions were handed over.

- (c) A sum of Rs.4,548,160 had been paid to the Item No. C 1.3.1 of Excavation Earth Work in bidding documents and the function which had to be performed under this Item was only filling up foundations relating to the construction of the library building.
- (d) It had been agreed to pay a sum of Rs.7,000,000 as well for construction of roads and landscaping of the garden under other subsidiary activities relating to the contract. It was observed during the inspection of the site that the landscaping of the garden and construction of roads were not needed.
- (e) The items which should be shown as provisional sum under preliminaries of the procurement documents in terms of the standard bidding documents No. ICTAD/SBD/04 in respect of the preparation of procurement documents, had been shown under the lump sum. As a result, in making payments, instead of being paid only the actual expenditure of the contractor, it had been agreed to pay the total amount mentioned in the bid and a sum of Rs.3,941,121 had been overpaid for that item without submitting bills including the actual expenditure.
- (f) Despite having included a sum of Rs.1,000,000 to the Bid separately by the contractor for Overhead Expenditure and dividends of the contractor, quotations of Rs.3,500,000 had been submitted under preliminaries for expenditure on consumption of water and electricity of the site relating to constructions which is taken as contract overhead expenditure. Further, it had been agreed to pay those amounts and a sum of Rs.1,750,000 had been paid by the date of this report.

4.5 Staff Administration

Vacancies in 24 posts of the academic staff and 08 posts in the non-academic staff existed in the year under review.

4.6 Library Administration

Even though a period from 01 to 15 months had elapsed after the due date on which 40 books lent to the academic and non-academic staff and bhikkus from the library of the University should be returned, those books had not been returned.

4.7 Internal Audit

The post of the Internal Auditor had been vacant throughout the year and it was observed that internal audit is not satisfactorily functioned.

5. Systems and Controls

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

- (a) Contract Administration
- (b) Human Resources Management
- (c) Budgetary Control
- (d) Financial Control and Collection of Revenue