

Rajarata University of Sri Lanka - 2015

The audit of financial statements of the Rajarata University of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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 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 Rajarata University of Sri Lanka in terms of Sub-section 108(1) of the Universities 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 judgements, 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. In terms of the Section III of the Universities Act No.16 of 1978 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 Rajarata University of Sri Lanka as at 31 December 2015 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

The following observations are made.

- (a) Even though in terms of Sri Lanka Public Sector Accounting Standards 01, the expenses of the litigation settlements should be disclosed separately in the statement of financial performance, the compensation amounting to Rs.162,610 paid for an officer of the University had not been disclosed separately in financial statements .
- (b) In terms of Sri Lanka Public Sector Accounting Standard 09, stock value of livestock which are considered as biological assets belonging to the Faculty of Agriculture should be accounted at their fair value. Nevertheless, only the net value had been shown in financial statements depreciating 20 per cent each annually to the cost which the livestock purchased.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the balance of mobilization advances granted for the construction of new building in the Faculty of Agriculture and construction of a swimming pool for the University according to the Ledger amounted to Rs.10,340,982 and Rs.29,060,008 respectively , the equivalence of the financial statements was problematic in audit due to it had been stated in the financial statements as Rs.8,132,028 and Rs.24,579,116 respectively.
- (b) Two hundred chicks valued at Rs.100,000 purchased for the Faculty of Agriculture in the year under review and the value of 12 animals as 07 calves ,04 kids, 01 lamb which were born during the year had not calculated and the total value had not been included in the stock of livestock.

2.2.3 Unexplained Differences

The following observations are made.

- (a) A difference of Rs.715,573 were observed between the stock balances according to the schedules prepared from the Reports of the Annual Board of Survey and the stock balances shown in the financial statements .

- (b) A difference of Rs. 1,204,507,511 was observed between the Computerized Register of Fixed Assets and 11 items of fixed assets shown in the financial statements.

2.2.4 Lack of Evidence For Audit

The following evidences had not been presented to the audit.

- (a) The physical existence of the library books and periodicals amounting to Rs.18,561,114 as per the accounts as at 31 December in the year under review could not be confirmed the physical existence in audit due to the report relating to the survey carried out in the year 2014 in respect of library books had not been furnished even by 31 July 2016.
- (b) Thirty eight animals belonging to various categories valued at Rs.38,850 in the farm of the Faculty of Agriculture had been died during the year under review and the veterinary reports or relevant other written evidences in respect of that had not been furnished to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken even in the year under review for the recovery of 10 balances totalled Rs.1,014,565 which had elapsed from 03 months to 32 months from the period of recovery of the research advances.
- (b) Action had not been taken as at the end of the year under review to settle the mobilization advances of Rs.388,003 granted in the year 2008 for a water project of the University and a sum of Rs.487,485 granted in the year 2012 for the renovation of the latrine system in the main administrative building.

2.4 Non – compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations, etc.	Non - compliance
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| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 381(I) | A Current Bank Account had been opened by the University without obtaining the Treasury approval. |
| (ii) Financial Regulation 570 | Action in terms of Financial Regulations had not been taken on the contract retentions of Rs.7,022,040 remained in accounts over a |

period from 2 years to 8 years.

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| <p>(b) Paragraph 3 of the Circular No.PED1/2015 dated 25 May of 2015 of the Director General of Public enterprises.</p> | <p>The relevant approval in terms of the provisions of the Circular had not been obtained relating to 2,512 liters of fuel valued at Rs.330,426 obtained exceeding the approval limit by 3 officers who were entitled for official vehicles.</p> |
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2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Payments of Rs.100,000, Rs.80,000 and Rs.50,000 had been made per month for the Professors, Senior Lecturers and Probationary Lecturers of the Faculty of Medicine respectively as retention allowances of the academic staff without the approval of the Treasury and recommendation of the Secretary to the Ministry or provisions of the Treasury Circular. Accordingly, a sum totalling Rs.24,924,886 had been paid comprising Rs.20,142,386 for the year under review and Rs.4,782,500 for the preceding year .
- (b) A sum totalling Rs.191,600 had been paid on the approval of the Board of Control in the year under review as fatigue allowances from Rs.500 to Rs.1500 per day based on the distance of the journey in addition to the daily combined allowances for an officer for official travels.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the University for the year ended 31 December 2015 had resulted in a deficit of Rs.116,769,950 as against the surplus of Rs.4,645,369 for the previous year thus observed a deterioration of Rs.121,415,319 in financial results in the year under review. Increase of personnel emoluments expenses by Rs.174,939,261 had been the main reason for the above deterioration.

In the analysis of the financial results in the year under review and 4 preceding years, the deficit in the financial result had decreased gradually from the year 2011 to the year 2013. Even though a financial surplus had obtained in the year 2014, a deficit had been shown again in the year 2015. It had been a deterioration in the financial result by 2614 per cent. However, the contribution had been increased continuously up to Rs.932,609,548 in the year 2015 which was Rs.332,295,581 in the year 2011 in considering the employee emoluments and depreciation on non-current assets .

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The evidences into examine and evaluations made for the academic progress relating to each Faculty of the University by the Senate in terms of Section 46(5) of the Universities Act had not been established in the examination of the reports of the Senate meetings and the evidences of furnishing academic performance reports to the Faculty Meetings by each Faculty or Departments as well.
- (b) According to the work norms under loads of practices on academic accountability for academic staff in Sri Lankan University system introduced by the University Grant Commission, it had been stated that the quantity of student relationship hours covered by each Lecturer within the year should be revealed by their own time table. Accordingly, 2,882 lecture hours out of the lecture hours of 5,275 should be covered by 14 Lecturers in the Faculty of Management which was subjected to the audit test check had also not been covered.
- (c) An expenditure amounting to Rs.6,353,213 had been incurred as at 31 December 2015 for 34 researches commenced with the approval of the Research Management Committee in the year 2015 . Progress reports including the half yearly intermediate research reports of 9 researches thereof had not been furnished to the Research Committee and the final reports of 19 researches which the research period completed had also not been furnished.
- (d) A provision of Rs.5,436,700 allocated for 26 researches approved by the Research and Management Committee from the year 2012 to 31 December 2014 and the research money had been withhold in the Research Fund. Therefore, the opportunity to allocate the provisions for other researches to be prioritized had been deprived due to that provisions had also not been utilized even by the end of the year under review.
- (e) The intermediate final research reports including the research progress had not been furnished by 155 members of the academic and non-academic staff who had been obtained research allowances of Rs.4,915,743 with the monthly salary.
- (f) It was observed that needing a follow up in respect of studies due to failure of students as 23 per cent and 21 per cent from the students who sat the final year examination in the Faculty of Management in the years 2013 and 2015 respectively and only one student got first class pass for the preceding 03 years in the Faculty.
- (g) A delay of 06 months to 10 months had been occurred for issuing final year examination results conducted in the year under review for 03 courses in the Faculty of Applied Science.

4.2 Management Activities

The following observations are made.

- (a) A Senior Lecturer of the Faculty of Management Studies of the University had been entered into a bond of Rs.2,250,000 with the University to proceed abroad for her Postgraduate Degree for the period of 2 years and 9 months and the same Lecturer came back to the country and had been reported to the duty without completing the relevant course. Accordingly, action had not been taken for the recovery of the sum

of Rs.651,338 spent from the money obtained for proceeding abroad for the Postgraduate Degree.

- (b) An Agreement valued at Rs.4,116,719 had been entered into with the University on 01 June 2011 to follow the 3 years foreign Postgraduate course for a Senior Lecturer of the Faculty of Management Studies in the University .Even though according to the Agreement, the Lecturer should report to the duty on 01 September 2014, she had been considered as vacated of the post from that day due to having not being reported to the duty .Action had not been taken to recover the loss occurred from breaching of Agreement even by April 2016.
- (c) In order to acquire a land of 15 acres in extent for expanding the Faculty of Agriculture, a sum of Rs.7,200,000 had been deposited with the Madyama Nuwaragam Palath Divisional Secretary in the year 2011. Nevertheless, the relevant acquisition had not been completed up to the end of the year under review.
- (c) Even though the Treasury had granted Rs.18 million in 2006 to acquire the 40 Police Quarters at the University premises , the activities of redemption of that land had not been completed even by the end of the year under review.

4.3 Operating Activities

A sum of Rs.6,720,200 had been paid during the year under review handing over the service of supplying water by bowsers on the quotations presented by a Lecturer of the University without calling quotations contrary to 2.14.1 of Supplementary 28 of the Procurement Guidelines for the supply of water by bowsers to the students hostels. It was not confirmed that the ownership of those bowsers belongs to the bidder as well.

4.4 Uneconomic Transactions

A sum of Rs.14,911,827 had been spent for the new purchase of 436 wooden beds, 80 steel almirahs and 112 wooden chairs in the year under review without considering the ability of re-use of 1000 iron beds,80 steel almirahs and 112 wooden chairs which could be used after doing minor repairs but disposed from the hostels which maintained on rental basis. Further, good conditioned 191 iron beds, 52 steel almirahs and 77 towel racks in the same hostels had been sold at Rs.291,100 as damaged goods by an auction sale.

4.5 Contract Procedure

The bidder who had presented the lowest prices had been rejected by the Technical Evaluation Committee stating that the ISO certificate not presented for the relevant equipment in the procurement procedure carried out for the purchase of 3 Heating Mentals. Accordingly, a loss of Rs.194,400 had occurred to the University Fund due to purchase of those equipment in the next higher bid without being evaluated bids by receiving a copy of the certificate enquiring the relevant bidder as non-submission of a copy of the certificate could be considered as minor deviations in terms of Paragraph 7.8.9 of the Procurement Guidelines.

4.6 Idle and Underutilized Assets

The following observations are made.

- (a) A Bank Current Account with a balance of Rs.906,230 of the University had been dormant from the year 2012.
- (b) Research grants of Rs.1,585,259 received from various institutions for the purpose of encourage the researches in the University had been underutilized and remained idle from 02 to 03 years .

4.7 Underutilization of Funds

A normal balance over Rs.1.2 million was existed during the year 2015 in a current bank account and the attention of the Management had not been paid on the utilization of that for the development activities of the University.

5. Accountability and Good Governance

5.1 Internal Audit

Only one officer had been attached for all internal audit activities without getting approval of the adequate staff for the Internal Audit Unit of the University for the execution of duties assigned to the internal audit in terms of Financial Regulation 133 for the examination of the activities of 5 Faculties of the University and Remote Study Centre.

6. Systems and Controls

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

Areas of Systems and Controls

Observations

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| (a) Contract Administration | Contract Administration activities relating to work and supplies in terms of the provisions of the Procurement Guidelines had not been carried out. |
| (b) Staff Administration | The approved cadre had not been updated by evaluating academic and non-academic staff. |
| (c) Control over Vehicles | Fuel consumption and maintenance of the running charts of the pool vehicles in the University had not been updated. |

(d) Research Control

Action not taken in accordance with the approved Research Guideline of the University.