

University of Colombo - 2015

The audit of financial statements of the University of Colombo 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 equity 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 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 judgments, 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. Section 111 of the Universities Act, No 16 of 1978 gives 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 University of Colombo 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

2.2.2 Failure to Disclosure the Related Party Transactions

Even though the approval of the Cabinet of Ministers should be obtained before the commencement of a company within the University, a limited by Guarantee Company named Colombo Science and Technology Cell had been registered under the Companies Act, in the year 2013. The Head Office of this Company had been housed in a building belonging to the Faculty of Science of the University of Colombo and the other physical and human resources including computer and accessories of the University had been utilized, whereas an agreement had not been entered into on the utilization of the property of the University. A sum of Rs.294,763 had been paid to the University in lieu of the utilization of the resources of the University.

2.2.3 Sri Lanka Public Sector Accounting Standard

As the useful life of the non-current assets had not been reviewed annually in accordance with the Sri Lanka Public Sector Accounting Standard 07, assets costing Rs.611,787,370 were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) The value of the cancelled cheques should be credited to the income during the relevant year. Nevertheless, the cancelled cheques totalling Rs.177,723 of the Faculty of Graduate Studies had not been credited to the income and it had been credited to the Faculty Development Fund maintained by the Faculty during the year 2015.
- (b) Although the courses relating to 45 batches of students had been completed in the year 2014, instead of crediting the surplus income amounting to Rs.85,593,750 to the Accumulated Fund, a sum of Rs.31,353,952 had been credited to the Faculty Development Fund and the balance of Rs.54,239,798 had been brought to account as the deferred income.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items of accounts had not been made available to audit.

Item of Accounts -----	Value ----- Rs.	Evidence not made available -----
Deposit in the Ceylon Electricity Board.	1,301,500	Relevant bills or other supporting documents.
Lands	35,296,230	Title Deeds
Distress Loans	4,184,905	Schedules

2.3 Accounts Receivable and Payable

Even though the Festival Advance should be deducted from the salaries of the officers concerned within 10 months from the date of issue of the advances, the balance of advances amounting to Rs.179,100 granted before the year 2015 had not been recovered even by the end of the year of accounts and the matters relating to this failure to recover and the age analysis of the advances in arrears had not been furnished to audit.

2.4 Transactions not Supported by an Adequate Authority

The following observations are made.

- (a) Sums of Rs.2,060,300 and Rs.5,443,800 out of the income from the courses conducted by the University in the years 2014 and 2015 respectively had been paid to the officers of the Executive Grade of the University as Honorarium Payments in addition to the salaries and allowances approved by the University Grants Commission without proper approval of the General Treasury, Ministry of Higher Education or the University Grants Commission.
- (b) Even though the University Grants Commission or the Ministry of Finance or the Department of Public Enterprises had not granted approval by circulars for the payment of participation allowance to the members who participate in the Faculty Board meetings held by the University and the Academic Board meetings or the Faculty Board meetings held by the Faculty, a sum of Rs.1,106,217 had been paid in the year 2015 by the Faculty of Graduate Studies as participation allowance to the members of the Faculty Boards and the Academic Boards.
- (c) In addition to the salaries and allowances approved by the University Grants Commission, a sum of Rs.738,750 had been paid to 06 employees of the Faculty of Graduate Studies as allowances from the income of 13 courses conducted by the

Faculty of Graduate Studies without the proper approval of the General Treasury, Ministry of Higher Education or the University Grants Commission.

- (d) Out of the interest income received for the investments in fixed deposits, the University had transferred a sum of Rs.25 million to a Medical Insurance Welfare Fund without proper approval.

2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following on-compliances with Laws, Rules, Regulations and Management Decisions were observed.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
<p>(a) Establishments Code of the University Grants Commission and Higher Education Institutions</p> <p>(i) Sections 3.1 and 3.2 of Chapter XX</p> <p>(ii) Section 2.2 of Chapter IX and the Circular No.575 dated 21 June 1993 of the University Grants Commission.</p>	<p>Although the arrival and departure of all the academic and non-academic staff of the University should be recorded, arrival and leave of 703 academic officers could not be established and as such the accuracy of the salaries and allowances of Rs.1,232,701,445 could not be examined.</p> <p>In making payments for discharging duties during weekends and the public holidays, a standing allowance had been paid without complying with the provisions. As such, a sum of Rs.298,743 had been overpaid.</p>
<p>(b) Section 99 (1) of Chapter XIII of the Universities Act, No.16 of 1978.</p>	<p>Apart from the Fund required to be maintained by the University, 84 other Funds had been maintained and sums totalling Rs.201,997,336 had been transferred to those Funds during the year under review without formal approval.</p>
<p>(c) Management Services Circular No.02/2014 dated 11 February 2014.</p>	<p>Even though the provisions made from the Consolidated Fund should not be spent on the research expenditure, research assistance amounting to Rs.3,824,931 had been granted during the year under review out of the provisions made by the Consolidated Fund to the University.</p>

- (d) Financial Regulation of the Democratic Socialist Republic of Sri Lanka.
Financial Regulation 371
- (i) Although the grant of advances should solely be limited to the officers of the Staff Grade, advances totalling Rs.2,140,650 had been paid in 128 instances to 29 officers not in the Staff Grade.
 - (ii) Although the advances should be settled immediately after the completion of the purpose for which it is granted, action had not been taken to settle the advances aggregating Rs. 2,707,277 granted in 15 instances despite the lapse of a periods from 34 days to 279 days from the grant of advances.
 - (iii) Even though the advances should be paid only upon a properly forecasted expenditure estimate, advances had been granted without such estimate and as such advances amounting to Rs.460,625 had been granted in 23 instances in respect of expenditure of Rs.158,201.
- (e) Public Finance Circular No.03/2015 dated 14 July 2015. Although the maximum limit of advances can be granted at a time is Rs.100,000, the University had granted advances raring from Rs.105,000 to Rs.300,000 in 17 instances surpassing the provisions in the Circular.

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 surplus of Rs.326,038,151 as compared with the corresponding surplus of Rs. 372,221,037 for the preceding year, thus indicting a deterioration of Rs.46,182,886 in the financial results during the year under review as compared with the preceding year. Although the Government Grants had increased by Rs.467,055,692, the increase in the expenditure on salaries and wages by Rs.400,333,561 and overhead cost by Rs.130,653,265 had been the main reason for above deterioration of the financial result.

An analysis of the financial results of the year under review and the four preceding years revealed that, although 52 per cent decrease in the financial results of the University was shown in the year 2012 as compared with the year 2011, the surplus had ceaselessly increased in the years 2013 and 2014 and a slight decrease was shown again in the year 2015. However, when taking into consideration the employees' remuneration, tax paid to the Government and the depreciation for the non-current assets, the contribution of the University had continuously increased from the year 2011 and it had been Rs.2,302,710,433 and Rs.2,629,543,494 in the years 2014 and 2015 respectively. Accordingly, the increase in the contribution during the year under review had been 14 per cent as compared with the year 2014.

4. Operating Review

4.1 Management Activities

The following observations are made

- (a) The SIDA SAREC Project initiated in the year 2003 had been completed in the year 2010. In terms of Clause 07 of the agreement relating to the project, if any balance exists after the completion of the agreed purpose, it should be given to the Government of Sweden. Nevertheless, the surplus of the project amounting to Rs.2,543,154 had been further retained by the University.
- (b) A post titled the Academic Director not included in the Approved Cadre of the Faculty had been created and allowances totalling Rs.165,000 at Rs.15,000 per month had been paid during the year under review. The written evidence on the duties assigned to the Lecturer for the payment of this allowance had not been made available.
- (c) The Registrar of the Faculty had obtained an allowance of Rs.210,000 during the year under review at Rs.35,000 per month by stating that he had supervised the building of the Faculty of Graduate Studies under construction. The payment had been made despite the non-submission of a report on the manner of supervision done and the observations made at such supervision by the Registrar.
- (d) Even though the Commissioner General of Examinations had informed the Registrar to take legal action in terms of the Public Examination Act, No.25 of 1968 and the Penal Cord against a person who serves in the University as a Computer Application Assistant for the preparation of faked certificate of examination results and inform him. Instead of taking legal action, he had been removed from the service and given approval for him to obtain the contribution from the University Provident Fund and the Employees Trust Fund.
- (e) A sum of Rs.36,019,234 remained receivable from 31 lecturers who had breached the agreements and bonds by the end of the year under review and out of this balance, a sum of Rs.1,892,022 was due from 07 lecturers who had violated the agreements prior to the year 2010. Nevertheless, any steps whatsoever had not been taken against them. Further, the agreements entered into after the year 2010 incorporated a

condition that, the money due in the agreements could be recovered from the University Provident Fund. Nevertheless, no action whatsoever had been taken to recover a sum of Rs.3,561,741 receivable from the Provident Funds of the lecturers concerned, notwithstanding the lapse of more than a period of 3 years from the violation of 2 agreements which included the above condition.

4.2 Underutilization of Funds

The following observations made.

- (a) Notwithstanding the existence of an opening balance of Rs.41,618,780 in the Government Grants Account, a sum of Rs.55,000,000 had been obtained from the General Treasury in order to incur an expenditure of Rs.28,404,075. It was observed that a balance of Rs.68,214,705 remained idle in that account as a result of taking action without a proper estimate.
- (b) Although a capital grant amounting to Rs.25,000,000 obtained for the Students Centered Education had been included in the capital expenditure during the year under review, only a sum of Rs.209,750 had been spent.
- (c) According to the agreement relating to the cleaning activities, the amount payable to the cleaning institution should be computed based on the rates agreed to make the payments according to the number of employees involved in the cleaning activities and the number of days that the service was provided. Nevertheless, payments had been made without complying with that requirement and as such it was observed at the test check that a difference of Rs.1,124,240 existed between the amount payable per month in terms of the Cleaning Agreement of each Faculty and the amount paid.
- (d) Even though the lecturers who obtain the research assistance should complete their researches on the date specified in the research proposal and submit the final research report, the final research reports of 12 lecturers who had obtained research assistance totalling Rs.9,136,737 had not been submitted despite the lapse of one year since the last day specified for the submission of the final research report.
- (e) The loan balances remains receivable from 14 employees who had left the University Service on various grounds amounted to Rs.1,243,481 and legal action had not been taken to recover that loan balance which exist over long period ranging from 5 to 10 years.

4.3 Identified Losses

The physical verification of books carried out as at 31 December of the year under review revealed that, 27,367 books valued at Rs.3,292,524 had been misplaced. No action whatsoever had been taken on these books and any adjustment had not been made in the financial statements.

4.4 Staff Administration

While there were 362 vacancies in the approved cadre of the University, action had not been taken to fill those vacancies and 103 employees had been recruited on contract basis. Accordingly, salaries amounting to Rs.27,804,822 had been paid to them during the year under review. The contract period of most of the employees had exceeded 5 years.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice 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 System and Control

Observations

(a) Finance Control	Cancellation of cheques, re-issuance and crediting to the income had been at a weak level.
(b) Contract Administration	Failure to maintain the relevant files properly and weak level of supervision. Failure to maintain a proper register on retention money.
(c) Fixed Assets Control	Failure to establish the ownership of the property, poor level of maintenance and disposal.
(d) Debtors and Creditors Control	Failure to take necessary action to settle balances.
(e) Staff Administration.	Failure to comply with the Scheme of Recruitment properly, Not recording the arrival and the departure of the Academic staff.
(f) Library Administration	Failure to conduct the Board of Surveys properly, Misplacements, Failure to maintain comparative registers properly.