

Wayamba University of Sri Lanka - 2015

The audit of financial statements of the Wayamba 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 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), and Section 108 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 the Financial Statements

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

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 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 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 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 Wayamba 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) **Sri Lanka Public Sector Accounting Standard 01**
Even though assets and liabilities shall not be offset unless permitted, out of payable scholarship fund of Rs.201,145 as at 31 December of the year under review a sum of Rs.44,427 had been shown in the statement of financial position.

- (b) **Sri Lanka Public Sector Accounting Standard 03**
Although the assets costing Rs. 451,864,242 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they had still been in use. Accordingly, action had not been taken to revise the error in the estimate.

- (c) **Sri Lanka Public Sector Accounting Standard 07**
Even though an asset should be depreciated on a systematic basis throughout its useful life since it is made available for use, library books valued at Rs. 307,045 purchased during the year 2006 and 2008 had been capitalized in the year under review. Hence, adjustments had not been made with respect to depreciations of the preceding year.

2.2.2 Accounting Policies

The total of the Government capital grants amounted to Rs. 2,918,722,000 by the end of the year under review, and the assets acquired by utilizing those grants had been depreciated. However, action had not been taken to account the amortization in that connection.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The sum of Rs. 73,843 retained in hand in the construction of a storeroom for the Physical Education Unit, Kuliypitiya had been settled on 15 December 2013 by crediting the Buildings Account instead of the Cash in Hand Account.

- (b) Action had not been taken to identify and account the direct receipts to the bank totalling Rs. 1,197,000 in respect of the period from February 2003 to September 2015.

2.2.4 Lack of Evidence for Audit

Schedules, Register of Fixed Assets and physical verification reports with respect to fixed assets valued at Rs. 1,836,129,051, were not made available to audit.

2.3 Non-compliances 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) Section 45 of the Universities Act, No. 16 of 1978, and Public Enterprises Circular, No. 30 dated 15 July 2005.	A sum totalling Rs. 29,400,000 had been invested during the year under review without obtaining the approval of the Treasury and the University Grants Commission.
(b) Sub-section 99 (1) of the Universities Act, No. 16 of 1978	Monies received from whatever sources pertaining to the Institute of Higher Education shall be utilized in the financial requirements of the University after being credited to the Universities Fund. Contrary to that, a total of Rs. 82,315,865 had been shown under other liabilities as at 31 December 2015 in 22 accounts being maintained with respect to the self-study course conducted by the faculties.
(c) Paragraph 2.2 of Chapter IX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Ten per cent of the fees drawn by a public officer for unofficial work done outside official work within the office hours, should be credited to the Consolidated Fund. However, no such payments had been made from the income earned by the Lecturers of the permanent academic staff who lectured as Visiting Lecturers in the other faculties of the same University.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
Financial Regulation 770 and 772	It had been identified as at 31 December 2015 that 120 items of goods in the stores valued at Rs. 810,384, had been unusable stocks, whereas 51 goods valued at Rs. 1,529,503 had been identified as unused goods. Action had not been taken on those goods in terms of Financial Regulations.

2.4 Accounts Receivable and Payable

The following observations are made.

- (a) A sundry debtor balance of Rs. 17,932, and receivable hostel fees amounting to Rs. 261,867 had remained outstanding over a period of more than 05 years.
- (b) Action had not been taken even by the end of the year under review to settle the balance totalling Rs. 29,097,110 in respect of creditors, retention, and deposits relating to a period of 02 to 04 years, and 06 items of liabilities amounting to Rs. 691,987 that had been shown under other liabilities.
- (c) Monies amounting to Rs. 7,575,176, and Rs. 3,638,359 payable to the second stage of the Faculty of Agriculture and Plantation Management, Makandura that had been handed over after completion in 2013, and the first stage of the Faculty of Business Studies and Finance, Kuliypitya, respectively, had not been settled even up to 31 December 2015.
- (d) Action had not been taken to settle 17 years old advances amounting to Rs. 386,045 that had been paid to external parties.
- (e) Action had not been taken to settle a sum older than 01 year amounting to Rs. 409,698, a sum older than 02 years amounting to Rs. 697,516, and a sum older than 03 years amounting to Rs. 935,641 shown in the accounts payable as at 31 December 2015.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the University for the Year ended 31 December 2015 had resulted in a deficit of Rs. 140,081,000 as compared with the deficit of Rs. 101,915,000 in the preceding year. As such, an increase in the deficit of the year under review by Rs. 38,166,000 was observed as compared with the preceding year. Although the Government grants for recurrent expenditure had increased by Rs. 145,242,000, the increase in the deficit had mainly been attributed by the increase in the employee remuneration, and depreciation by sums of Rs. 115,979,000, and Rs. 55,042,000 respectively.

4. Operating Review

4.1 Performance

Differences were observed between the approved and actual number of students enrolled in each academic year for the faculties of the University. Although 200 students had been approved for the Faculty of Applied Sciences for the academic year 2013/2014, the number of students actually enrolled was 182. The approved number of students for the Faculty of Livestock, Fisheries and Nutrition was 170, whereas the number of students enrolled was 100. As student enrollments had not been made according to a proper methodology, action had not been taken by the top management to enroll the specified number of students.

4.2 Management Activities

The following observations are made.

- (a.) Due to failure in procuring the bunkbeds and equipment valued at Rs. 10,728,976 that had been ordered in the year 2015 for 05 students hostels handed over in the year 2014 after completion of the constructions, those hostels could not be allowed for use of the students even by the end of the year under review.
- (b.) The manner in charging fees differs from course to course and there were instances in which fees were paid in full or by installments. Books had not been maintained in a manner enabling to identity of those payments.
- (c.) Lecture hours, field hours, and practical hours had not been separately planned when the Visiting Lecturers for the Faculty of Agriculture and Plantation Management, and the Faculty of Livestock, Fisheries and Nutrition had been appointed. In making payments, differences were observed between the approved lectures, practical hours and the number of hours performed.
- (d.) Goods valued at Rs. 1,647,590 that had been purchased under the livestock development programme, had not been entered in the stock registers of the University.
- (e.) **Ownership of Lands of the University**

The following observations are made.

- (i) Certificates of transfer had not been obtained in respect of the Plot No. 452 in Plan No. 992 of the Kuliyaipitya premises, Plot Nos. 1,2, and 7 in Plan No. 4490 of the Wennappuwa premises, and the Plan No. 10661 of the Makandura premises.
- (ii) Although a sum of Rs. 10 million had been paid to the Coconut Research Institute with respect to the land of 05 acres in extent at the Makandura premises, a deed of transfer had not been obtained in that connection.
- (iii) The University had obtained 09 plots into possession under 06 plans, but a Registry of Fixed Assets had not been maintained thereon. The values of those lands had not been obtained by being assessed separately.

4.3 Idle and Underutilized Assets

The buildings constructed by incurring a sum of Rs. 2,484,494 in the year 2014 under the Livestock Development Programme of the Faculty of Livestock, Fisheries and Nutrition had remained unused even up to 31 December of the year under review.

4.4 Contract Administration

The following observations are made.

- (a.) Although a delay ranging from 09 to 23 months had occurred for the completion of 05 contracts relating to the constructions of the University, action had not been taken to charge liquidated damages in that connection.
- (b.) Approval of the Cabinet of Ministers had been received for the consultancy firm to construct the proposed cafeteria building with a floor area of 8392 square feet for accommodating 500 students and staff members simultaneously at an estimated cost of Rs. 45 million under the condition that the cost shall not be revised.

The following observations are made in this connection.

- (i) The initial estimate for the entire building had been prepared on 19 December 2012 at a cost of Rs. 38,000,000. However, the estimated cost had been increased up to a total of Rs. 56,300,000 by dividing the estimate into 3 phases comprising the first phase for a sum of Rs. 20,000,000, the second phase for a sum of Rs. 14,400,000 and the third phase for a sum of Rs. 21,900,000.
- (ii) Although the Institute had prepared the cost estimate for the first phase of the building at a value of Rs. 20,000,000 with the agreement of the Consultancy Firm, a revised estimate to the value of Rs. 34,000,000 had been prepared for the procurement process.
- (iii) As the initial cost estimate for the entire building valued at Rs. 38,000,000 had been revised without any justification in a manner that the cost only for the first phase amounted to Rs. 34,000,000, the total estimated cost amounted to Rs. 70,300,000. Accordingly, the limit of expenditure amounting to Rs. 45,000,000 that had been approved by the Cabinet of Ministers, had been exceeded by a sum of Rs. 25,300,000.
- (iv) In terms of the Public Finance Circular, No. 02/2012 dated 07 August 2012, approval of the Cost Estimate Examination Committee had not been obtained in respect of the said revision of cost.
- (v) Although it had been agreed to pay a fee of Rs. 2,280,000 for the entire building in respect of the consultancy services, the fee had been increased to Rs. 4,218,000 due to the revision of cost.
- (vi) Following instructions of the Consultancy Firm, the Technical Evaluation Committee had not taken action to reach an agreement with the contractor who had furnished the lowest bid thereby turning down the lowest bid, and recommending the second lowest bid. As such, the contract value had increased by a sum of Rs. 7,988,576.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) In terms of Section 04 of the Public Finance Circular, No. 01/2014 dated 17 February 2014, an annual Action Plan should have been prepared including activities for

achieving the objectives of the relevant Act together with a long-term vision. However, the plan for the year under review furnished to audit had not been prepared in accordance with the Circular.

- (b) Three projects with an estimated cost of Rs. 3,500,000 that had been planned to be implemented during the year under review in accordance with the Action Plan, had not been implemented due to non-receipt of provisions.
- (c) A sum of Rs. 17,337,712 had been incurred in excess of the provisions of 06 projects implemented during the year under review, and the excess represented a range of 11 to 83 per cent.

5.2 Budgetary Control

Overestimates amounting to Rs. 71,913,000 had been prepared with respect to 50 items of the Budget, and expenses amounting to Rs. 52,807,000 had been incurred in excess of the budgeted provisions of 29 Objects. A provision of Rs. 850,000 made for 02 Objects in the year under review, and the total provision of Rs. 12,926,804 made for the Information Technology Development Project during the years 2014, and 2015, had been saved. Accordingly, it was observed that the budget had not been made use of as an effective instrument of control.

5.3 Tabling of Annual Reports in Parliament

The annual report of the University should have been tabled in Parliament within 150 days of closure of the financial year in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003. However, the report for the year 2013 had not been tabled even by 31 December of the year under review.

6. 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.

Area of Systems and Controls -----	Observations -----
(a) Contract Administration	Period of contract had been continuously extended in case of delays without liquidated damages being charged.
(b) Personnel Administration	Heavy costs had to be incurred as the service of Visiting Lecturers had been obtained due to failure in filling vacancies of the academic staff.