

## **Uva Wellassa University of Sri Lanka - 2015**

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The audit of financial statements of the Uva Wellassa 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) 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**

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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 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 the 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**

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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 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 Uva Wellassa 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.**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The useful life of non-current assets had not been reviewed annually in terms of Public Sector Accounting Standard 07. Even though fixed assets costing Rs.114,130,385 had been fully depreciated, they had still been in use. As such, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The expenditure incurred for the purchase of chemicals and glassware had been written off as an expenditure of the relevant year. As such, the remaining stock valued at Rs.12,231,211 as at 31 December of the year under review had not been brought to account.
- (b) Legal expenses of Rs.539,200 paid for purposes of acquisition of lands in the year under review had been brought to account under recurrent expenditure.

#### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) A difference of Rs.677,355 was observed between the balance stock physically verified as at 31 December of the year under review and the balance stock included in the financial statements.
- (b) A difference of Rs.719,287 was observed between the confirmation of balances obtained in respect of balances recoverable from officers who had breached agreements and the balances shown in the financial statements.
- (c) Even though the University had confirmed that the value of financial grants received from various persons for research purposes amounted to Rs.1,436,341, it had been indicated in the financial statements as Rs.1,131,952.

#### 2.2.4 Lack of Evidence for Audit

The evidence indicated against the following 03 items of accounts totalling Rs.3,531,671 shown in the financial statements was not made available to audit.

| <b>Item of Account</b>       | <b>Value</b>     | <b>Evidence not made available</b>      |
|------------------------------|------------------|---|
|                              | <b>Rs.</b>       |   |
| Refundable Deposits          | 2,009,692        | ] Lists of Individual Balances          |
| Security Deposits            | 879,553          |   |
| General Deposits - Recurrent | 642,426          | Deposit Registers and Lists of Balances |
| Total                        | <u>3,531,671</u> |   |

#### 2.3 Accounts Receivable and Payable

The following observations are made.

- Research allowances of Rs.93,546 paid for the period from January to July 2011 on reimbursable basis to a Professor who was transferred to the University as the Vice Chancellor on 28 July 2011 had not been recovered from the University of Peradeniya even by the end of the year under review.
- Action had not been taken to rectify the erroneous bank debits of Rs.38,000 relating to the years 2013 and 2014 included in the Bank Reconciliation Statement as at 31 December 2015.
- A sum of Rs.8,440,058 was recoverable to the University as at the end of the year under review from two Lecturers in respect of breaching bonds and contract agreements.
- Adequate steps had not been taken up to 31 December 2015 to settle a sum of Rs. 60,768,008 payable to the Central Engineering Consultancy Bureau which had carried out the construction works of the University during the period from the year 2006 to the year 2015.

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

The following non-compliances were observed during the course of audit.

| <b>Reference to Laws, Rules, Regulations, etc.</b>                                     | <b>Non-compliance</b>  |
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| (a) Section 14(1) of the Finance Act, No. 38 of 1971                                   | A copy of the Draft Annual Report for the year under review had not been presented to the Auditor General.   |
| (b) Section 37(1) of the Universities Act, No. 16 of 1978.                             | Even though the Registrar of a University should be appointed by the Council upon the recommendation of a Selection Committee, the composition of which is specified by Ordinances, the Vice Chancellor had appointed a retired Registrar on assignment basis from 12 November 2014 without the approval of the Cabinet of Ministers and paid a sum of Rs.1,645,000 as salaries and allowances as at 31 December 2015. |
| (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka            |  |
| (i) Financial Regulation 139   | Even though payments should be made only for the vouchers certified by the Certifying Officer, contrary to that, a sum of Rs.2,814,378 had been paid to the Central Engineering Consultancy Bureau in the year under review.   |
| (ii) Financial Regulation 156  | A surcharge of Rs.70,347 had to be paid due to non-payment of contributions duly during the period from January to May in the year under review in terms of the provisions of the Employees' Trust Fund Act and action had not been taken to recover that amount from the officers responsible therefor.   |
| (iii) Financial Regulation 371(2)  | A period of 01 to 10 months had been taken to settle the sub-impressts of Rs.234,912 obtained by 04 officers without taking action to settle it immediately after completion of the purpose.   |
| (d) Treasury Circular Nos. 842 of 19 December 1978 and IAI/2002/02 of 28 November 2002 | A Register of Fixed Assets relating to property, plant and equipment costing Rs. 2,139, 950,371 had not been prepared properly according to classes of assets and a Register of Assets had not been maintained in respect of computer software and hardware costing Rs.32,850,376.   |

- (e) Sections 7.1 and 7.2 of the Public Operation Manuals covering the main fields of Enterprises Circular No. PED/12 of operations of the University had not been prepared. 03 June 2003.
- (f) Establishments Circular No. 12/2013 of 29 August 2013 of the Chairman of the University Grants Commission. Action had not been taken to recover the rents of the quarters from the officers residing in the bachelors' joint quarters and senior officers' quarters in terms of the provisions in the Circular.

### 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 2015, had been a deficit of Rs.97,665,336 as compared with the corresponding deficit of Rs.59,812,116 for the preceding year, thus indicating a deterioration of Rs.37,853,220 in the financial result of the year under review as compared with the preceding year. Even though provisions received from the Government for recurrent expenditure had increased by Rs.16,669,000 as compared with the preceding year, the increase in employees' remuneration by Rs.54,213,376 had been the main reason for the above deterioration.

An analysis of the financial results of the year under review and the 04 preceding years revealed a financial deficit from the year 2011 up to the year 2015. Taking into consideration the employees' remuneration, tax paid to the Government and depreciation for non-current assets, the contributions had increased in the year 2012 as compared with the year 2011 and contributions had decreased in the year 2013 as compared with the year 2012. However, the contributions which were Rs.113,423,662 in the year 2013 had increased up to Rs.254,823,688 in the year under review.

#### 3.2 Analytical Financial Review

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The following observations are made.

- (a) There had been an increase in the income except for Government grants and deferred income by 12 per cent, expenditure and deficits except for depreciations by 17 per cent and Government grants by 5 per cent respectively in the year 2015 as compared with the year 2014.
- (b) The current assets had increased by 120 per cent in the year under review as compared with the preceding year and the working capital had decreased by 55 per cent.
- (c) The ratio of current liabilities to current assets was 3:1 in the preceding year and due to the increase in current assets of the year under review, the ratio of current liabilities to

current assets was 1.4.1. Even though an improvement of 1.6 was shown in the current ratio, it had not reached the ratio of optimum level of 1:2 of current liabilities to current assets.

- (d) The cash flows of operations in the year 2015 had decreased by 23 per cent as compared with the year 2014 and the cash flows of investments and financial activities had improved by 11 per cent and 18 per cent respectively. An improvement of 325 per cent had been indicated under cash and cash equivalents at the end of the year.

## **4. Operating Review**

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### **4.1 Performance**

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Fourteen strategic targets expected to be achieved had been mentioned in the Action Plan prepared by the University for the year 2015. According to the Action Plan for the year under review, the strategic targets could not be achieved up to the expected level by the end of the year 2015 and the following observations are made in this connection.

- (a) Even though the percentage of employment of Graduates had been expected to reach the level of 80 per cent through achieving the objectives of revising all Degree Programmes to improve qualifications and social values to suit the global market and in accordance with the changing industrial requirements, the percentage of employment of Graduates who had passed out of the University in the year 2015 had decreased to 73 per cent.
- (b) Even though the expected registration of foreign students of the University through achieving the objective of participation of foreign students in higher studies of Science, Technology, Agriculture and Management had been 1 per cent of the total number of registered students, the number of foreign students as a percentage of the total number of students had been 0.54 per cent in the year 2015.
- (c) Even though the University had expected to be among the first 13000 in the Web of Universities Ranking through achieving objectives of developing discipline of Degree programmes, improving researches and the level of teaching and creating excellent infrastructure facilities for teaching, learning and research by the end of the year under review, as compared with the preceding year that position had dropped by 1126 positions, from 14236 to 15362 and in the Local Universities Ranking, the position had dropped to 17<sup>th</sup>, 19<sup>th</sup> and 20<sup>th</sup> places in the years 2013,2014 and 2015 respectively as at 31 May 2016.
- (d) Even though the expected rate of usage of the library by the students and staff according to the objective of expansion and improvement of library facilities of the University for knowledge and information needs had been 60 per cent, it had taken a rate of 46.5 per cent at the end of the year 2015.
- (e) Recurrent expenditure amounting to Rs.534,096,538 and Rs.457,802,863 had been incurred for 1,956 and 1,900 students in the year under review and the preceding year

respectively. As such, the cost per student amounted to Rs.273,055 and Rs.240,949. Accordingly, the cost per student had increased by Rs.32,106 in the year under review as compared with the preceding year.

- (f) Out of 550 students enrolled to the University for the year under review, 09 students or 1.6 per cent had dropped out of the courses.
- (g) Even though 850 students should be enrolled for 11 Degree programmes for the year under review according to the Corporate Plan for 2013- 2017, only 550 students had been enrolled. As such, out of the expected number of students, 300 students had not been registered.

#### **4.2 Management Activities**

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The following observations are made.

- (a) According to the decision taken relating to the vesting of the land owned by the Ministry of Industry in the Ministry of Education for the establishment of the University under the Cabinet Paper No.5/0183/035/001 at the meeting of the Cabinet of Ministers held on 10 February 2008, the ownership of lands of 30.9667 hectares in extent allocated to the University had not been legally vested in the University.
- (b) Even though it is the duty of the Chief Accounting Officer and the Accounting Officer to deal promptly with audit queries in terms of Financial Regulation 155 and to give complete answers, answers had not been given even by 31 May 2016 to 05 queries issued by the Government Audit in the year 2015.

#### **4.3 Underutilization of Funds**

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The following observations are made.

- (a) Out of the budgeted capital provisions amounting to Rs.6,650,000 made in the year 2015 for encouraging researches, a sum of Rs.1,480,495 had been utilized and provisions of Rs.5,169,505 had been saved representing 78 per cent of the total provisions.
- (b) Even though budgeted capital provisions of Rs.25,000,000 had been allocated in the year 2015 for the establishment of a Degree Programme in Technology to suit the new Technology Stream in Advanced Level, a sum of Rs.745,162 had been utilized. As such, a sum of Rs.24,254,838, representing 97 per cent of the provisions made, had not been utilized.
- (c) The sum of Rs.3,323,020 given to the University in December 2014 through the District Secretariat of Badulla by the Ministry of Economic Development under the Divineguma Livelihood Development Programme in the year 2014 had remained idle even by 31 December 2015 and as such, the progress of implementation of the project had been unsatisfactory.
- (d) A sum of approximately Rs.2,000,000 earned from external courses in the years 2014 and 2015 had been deposited in a current account without utilizing for the activities of commencement of the courses.

#### **4.4 Idle and Underutilized Assets**

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The following observations are made.

- (a) Five safes purchased on 30 June 2010 for a sum of Rs.322,560 had remained idle even as at 31 December 2015 without being made use of.
- (b) According to the reports submitted in respect of using the multi- purpose 3-Axis CNC machine valued at Rs.14,060,480 purchased in the year 2012 for the engineering workshop, this machine had been used only for displaying purposes carried out using wood and afterwards had remained underutilized as at 31 December 2015.
- (c) The accounting software valued at Rs.222,768 purchased in the year 2013 for facilitating the administrative activities of the Finance Division of the University had been disposed, without being made use of.

#### **4.5 Contract Process**

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Even though a written agreement should be entered into between the client institution and the contractor after awarding the constructions in terms of the Code of Instructions No. 08 of 25 January 2006 of the National Procurement Agency and paragraph 33.6 of ICTAD SBD/01, agreements had not been entered into in awarding the constructions of the University to the Central Engineering Consultancy Bureau.

#### **4.6 Staff Administration**

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Ten approved posts of Professor in the faculties of the University and out of the 180 approved posts of Lecturer for the faculties of Animal Science, Export Agriculture and Science and Technology, 40 posts had been vacant and an excess of 07 posts of Lecturers had existed in the Faculty of Management. Moreover, in terms of Circular No.876 of the University Grants Commission of 06 June 2006, necessary action had not been taken to recruit officers for 70 vacancies of the non-academic staff of the University.

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

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#### **5.1 Corporate Plan**

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A review of operations for the preceding 03 years had not been included in the aforesaid Corporate Plan in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Further, the financial values of the targets to be achieved had not been indicated and as such, the Corporate Plan had not been presented in a manner to enable the evaluation of the annual progress.

#### **5.2 Action Plan**

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The updated organizational structure of the University, details on the approved and actual cadre and the Internal Audit Plan had not been included in the Action Plan prepared for the



year under review in terms of paragraph 04 of the Public Finance Circular No.01/2014 of 17 February 2014.

### **5.3 Internal Audit**

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The copies of internal audit reports in terms of Financial Regulation 134(3) had not been presented to the Auditor General in ascertaining whether an adequate internal audit had been carried out so as to cover different areas in terms of Financial Regulation 133(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

### **5.4 Procurement Plan**

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The Master Procurement Plan had not been updated in terms of Guidelines 4.2.1 (e) and 4.2.2 of the Procurement Guidelines of 2006.

### **5.5 Budgetary Control**

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Variances ranging from 4 per cent to 66 per cent of the provisions made for 05 items of recurrent expenditure and significant variances ranging from 15 per cent to 97 per cent of the provisions made for 09 items of capital expenditure were observed in the comparison of the estimated expenditure with the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.6 Unresolved Audit Paragraphs**

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The University had failed to rehabilitate the Waste Water Recycling Project up to the end of the year under review in accordance with the instructions given by the Committee on Public Enterprises at the meeting held on 21 September 2012.

## **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 of the University from time to time. Special attention is needed in respect of the following areas of control.

| <b>Areas of Systems and Controls</b> | <b>Observations</b>  |
|--------------------------------------|--|
| -----                                | -----  |
| (a) Accounting                       | Failure in following Accounting Standards, existence of accounting deficiencies and unreconciled accounts. |
| (b) Assets Management                | Failure in revaluation of fixed assets and non-maintenance of Registers of Fixed Assets properly.          |
| (c) Stores Control                   | Weak management of stocks and failure in indicating stocks in the financial statements.                    |

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|--------------------------|---|
| (d) Staff Administration | Existence of vacancies in posts and excess employees.                           |
| (e) Performance          | Failure in achieving the expected targets.                                      |
| (f) Budgetary Control    | Existence of significant variances between the budgeted and actual expenditure. |