

University of Kelaniya – 2016

The audit of financial statements of the University of Kelaniya for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in funds 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

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 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 financial statements. Section 111 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.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the University of Kelaniya as at 31 December 2016 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 revaluation is necessary if the fair value of items of property, plant and equipment materially differ as compared with the carrying amount, in terms of Sri Lanka Public Sector Accounting Standard No. 07. Nevertheless, action had not been taken since the year 2008 to assess lands of which the cost being stated as a sum of Rs.724,931,142 of which the University of Kelaniya acquires the legal ownership and the fair value had not been brought to account for many years as at 31 December 2016.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though the final stock amounted to Rs.32,474,645 according to the Reports of the Boards of Survey of the year under review, however according to the Ledger Account that balance was Rs.23,517,539 then the final stock amounting to Rs.8,957,106 had been over- accounted.
- (b) Even though office equipment amounting to Rs.266,980 given to the University in the year 2012 by the “Higher Education for the Twenty First Century Project” had been dispose, that value had not been removed from accounts and consumer goods amounting to Rs.233,197 had been brought to account as Fixed Assets. Moreover, office equipment amounting to Rs.3,258,129 given to the University in the year under review and in the preceding years by that project and teaching equipment amounting to Rs.1,117,655 had not been brought to account as Fixed Assets.

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

The following non-compliances were observed.

Reference to Laws, Rules and Regulations	Non- compliance
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(a) Section 46(6)(VII) of the Universities Act, No.16 of 1978	A Research Committee had been established only on the approval of the Council of the University and it had been approved to pay 25 per cent of allowance of the salary to the Chairman of that Research Committee as well. A sum of Rs.112,019 had been paid to that Chairman as those allowances even for the period of 05 months of which he had obtained sabbatical leave.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Even though action should be taken to settle the advances as soon as the received function is being completed, International Conference Advances amounting to Rs.5,231,300 and Advances for Research amounting to Rs.1,169,060 had not been settled even by 31 December 2016.
(i) Financial Regulation 371(2)	
(ii) Financial Regulation 394	Four- hundred and sixty seven cheques of which the total value being a sum of Rs.2,240,557 which had been cancelled within the period from 24 November 2008 to 22 June 2016 had been stated under current liabilities in the financial statements instead of taking action in terms of Financial Regulations.
(iii) Financial Regulations 570 and 571(3)	Action had not been taken either to settle or to take under income the Tender, Security and Miscellaneous Deposits valued at Rs.14,483,952 remaining from 02 years to 09 years even by 30 April 2017.
(iv) Financial Regulation 757	Either rectification of stock books by identifying stock shortages amounting to Rs.3,275,687 and excess of stocks amounting to Rs.1,327,930 observed according to the Reports of the Board of Survey of Stocks as at 31 December 2016 or taking action in terms of Financial Regulations had not been carried out.

- (v) Financial Regulations 770, 772 and Public Finance Circulars No.438 of 13 November 2009
- Action had not been taken to non-issuing goods valued at Rs.1,491,834 and Rs.1,436,333 respectively which remain not issued from a period between 02 years to 10 years and damaged goods.
 - Action had not been taken either to recover the value of 35,159 misplaced books identified in the Board of Survey of Library Books carried out in the year 2012 from the persons responsible or to write off from books.
- (c) Circular No.2004/ 33/01 of the National Library and Documentation Board dated 26 January 2004
- A Survey of Library Books had not been carried out after the year 2012.
- (d) Government Procurement Guidelines dated 25 January 2006
- (i) Section 4.2(a)
- (i) The approval of the Council had not been obtained for the Main Procurement Plan prepared in the year 2016. Moreover, details relating to the construction contracts of which the University Funds are deployed had not been included in the Procurement Plan.
- (ii) Even though expected procurement activities for at least 3 years should be listed in the Main Procurement Plan, a Procurement Plan had not been prepared in such a manner.
- (ii) Sections 4.2.2 and 4.2.3
- A Procurement time table had not been prepared.

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 2016 had resulted in a surplus of Rs.495,212,649 as compared with the corresponding surplus of Rs.474,804,754 for the preceding year, an improvement of Rs.20,407,895 in the financial results was observed. Even though personnel emoluments had been increased by a sum of Rs.174,170,879, the increase of government recurrent provisions and the interest income by sums of Rs.186,000,000 and Rs.95,426,256 respectively had been the main reason for this improvement.

In analyzing financial results in the year under review and of four preceding years, even though a decrease in the surplus had indicated in the year 2014, an improvement in the surplus was observed in the years 2012, 2013, 2015 and to the year 2016. However, after adjusting personnel emoluments and depreciation for non-current assets again, the contribution amounting to Rs.1,279,201,888 in the year 2012 had been improved to a sum of Rs.2,685,538,387 by the year 2016.

4. Operating Review

4.1 Performance

Functions such as admitting students, providing for instruction for learning, conducting post-graduate degree courses, holding examinations for ascertaining the persons who have acquired proficiency in different branches of learning, conducting external examinations, erecting libraries, laboratories and other buildings for the purpose of the University for instructional and residential purposes, instituting the posts of Professorships, Associate Professorships, Senior Lectureships, instituting and awarding scholarships, fellowships, bursaries, medals and prizes had been stated as the functions of the University by the Universities (Amendment) Act, No.7 of 1985 as amended by the Act, No.16 of 1978. The following observations are made in inquiring in this connection.

- (a) Four objectives intended to be achieved had been stated under 08 divisions in the Action Plan prepared for the year 2016 and 974 targets had been included in those 08 divisions. Only 38 per cent of the total targets had been completed in examining its progress as at 31 December 2016 and 32 per cent had been operative. As such, targets not being implemented had been 30 per cent.

(b) Academic Progress

- (i) The total number of students studying in the University in the year under review had been 9,542. Even though the number of students that could be admitted for the First Year being 2,635, 2,734 students had been admitted. As such, 58 and 51 students respectively had been admitted less than the number of students that could be admitted to the Faculty of Commerce and Management Studies and to the Faculty of Science.
- (ii) Three students out of the 50 students recruited in the year under review for the Course in Speech and Hearing Sciences initiated in the Academic Year 2007/2008 by the Faculty of Medicine had left the course and 11 students out of the 44 students recruited in the preceding year had left the course.

(c) Conducting External Examination Courses

The following observations are made.

- (i) Powers had been entrusted to conduct examinations, with the concurrence of the Commission, to enable those who are not students of the University or of any recognized institution to obtain degrees, diplomas, and other academic distinctions of the University in terms of Section 29(f) of the Universities Act, No.16 of 1978. As such, 06 external examination courses are conducted by the University of Kelaniya and the total number of registered students by 31 December 2016 had been 95,906. An income totalling Rs.1,542,947,059 had been earned from the year 2012 to the year 2016 by the University by conducting these courses and the income that exceeded the expenditure ranged from 84 per cent to 541 per cent. The course fees had been revised in the year 2014 by the University and an increase of fees ranging from 193 per cent to 438 per cent as per courses was observed. The need for increasing course fees despite an improvement in the income exceeding the expenditure as shown above being indicated was not explained in the audit.
- (ii) Even though course fees had been charged as mentioned above, an unusual delay in issuing the examination results was observed and that period was ranging from 06 months to 01 ½ years.

(d) Research Activities

- (i) Treasury Research Grants
- Even though a sum of Rs.2,525,000 had been allocated for 11 research projects in the year under review, a sum of Rs.894,077 of it had been utilized for those 11 research projects as at the end of the year.
 - Three research projects which had been approved for the year 2015 had not been initiated even by 08 September 2017.
 - The prescribed period for these research projects had been extended in most instances and the Vice Chancellor had informed to the audit that the lecturers obtaining study leave and sabbatical leave and the collection of data and the delay in research activities had been the main reasons for this delay.
- (ii) A sum of Rs.22,000,000 had been provided in the year under review by the University Grants Commission for encouraging research and a sum of Rs.12,872,344 of it had been spent for 17 research projects of 15 lecturers. The utilization had been 59 per cent on a sum of Rs.9,127,656 had been saved as at the end of the year.

- (iii) Two balances amounting to Rs.9,283,020 including in the balance of Rs.28,257,735 which had been stated in the financial statements as University Research Grants had not been utilized since the year 2011.

4.2 Management Activities

The following observations are made.

- (a) Even though a block of land of 60 perches in extent belonging to the University had been given to the People's Bank since the year 1980, the lease rental had not been recovered for this block of land even up to the end of the year under review.
- (b) A land of 19.2 perches in extent had been purchased by the University in the year 1978 for a sum of Rs.1,600,000 and it had been sold to a private party for a sum of Rs.11,923,200 in the year under review without utilizing it for the activities of the University.
- (c) Even though a software had been installed by spending a sum of Rs.1,200,000 in the year 2007 for the registration of fixed assets by the University, it had not been updated since the year 2012.

4.3 Operating Activities

The following observations are made.

- (a) Even though fines should be charged in terms of the agreements from the lecturers who breach agreements in terms of Section 33 of Chapter 10 of the Establishments Code of University Grants Commission and the Higher Educational Institutions, a sum of Rs.57,238,122 remained recoverable from 19 lecturers who breached agreements as at 30 June 2017. Sixteen lecturers out of them were Assistant Lecturers.
- (b) It had been accommodated to make payments of the bond value as installments and it was observed that a long period between 10 to 15 years had been lapsed in recovering money on being agreed to pay as small installments of the money recoverable in determining the value and the period of an installment.
- (c) There were four officers who had breached agreements in the year 2016 and the agreed amount of two officers out of them had not been calculated.

4.4 Deficiencies in the Contract Process

An agreement had been entered into with the State Engineering Corporation on 24 December 2014 for an estimate of Rs.157,593,998 for the construction of the building of the Information and Communication Technology Centre and a sum of Rs.34,985,842 had been paid as mobilization advances on 16 January 2015. However, construction activities had not been commenced even up to October 2016 due to carrying out constructions by purchasing new land and by preparing plans instead of commencing constructions in the planned premises and government money had been retained at external parties over a period of one year fruitless.

4.5 Underutilization of Funds

The following observations are made.

- (a) Transactions had been commenced only in 02 instances in the year under review in the Bank Current Account maintained in a State Bank by the University and it was observed in examining the balances remaining in the bank in the end of each month that an average monthly balance of Rs.3,549,248 had been maintained.
- (b) Two funds amounting to Rs.120,000,000 remaining under the University Fund had not been utilized from the year 2015 and sums of Rs.5,423,868, Rs.1,026,890 and Rs.8,460,434 respectively out of the grants received for special objectives in the years 2012,2013 and 2015 had been retained in a Bank Current Account without deploying for those objectives.

4.6 Personnel Administration

The following observations are made.

- (a) Even though the permanent approved cadre of the academic staff had been 649, the actual cadre had been 542. As such, 22 vacancies remained out of the 107 vacancies had been of Associate Professors. Even though vacancies remained in the academic staff, 47 lecturers had obtained sabbatical leave.
- (b) Even though the approved cadre for the academic staff (temporary) had been 122, the excess had been 199 on the actual cadre being 321.
- (c) The number of vacancies in the non- academic staff had been 95.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

- (a) A summary on separately identifying the receipts of funds of the year for the University, Government Grants, Other Grants and earned income and distributing among each faculty had not been stated in the Performance Report.
- (b) Eighteen main targets and special objectives had been stated in the Action Plan of the Faculty of Social Science for the period July to December 2016 and the manner that funds should be deployed for it and the performance of the year and the financial and physical progress had not been included in the Performance Report.

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.

Areas of Systems and Controls

Observations

Areas of Systems and Controls	Observations
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(a) Control of Fixed Assets	Not bringing to account the fair value by revaluating assets.
(b) Survey of Library Books	Not surveying library books annually.
(c) Control of Contracts	Delays in constructions and extending the period of contract from time to time.
(d) Control of Advances	Delay in the settlement of advances.
(e) Stores Control	Not taking action relating to the stock shortages and excesses and the delay in disposal of goods that could not be used.