

University of Colombo – 2016

The audit of financial statements of the University of Colombo 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 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 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 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 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 Consolidated Financial Statements

A limited by Guarantee Company named Colombo Science and Technology Cell had been registered under the Companies Act, No.7 of 2007 in the year 2013 on the recommendation of the University Grants Commission and the Minister of Higher Education without the approval of the Cabinet of Ministers contrary to the Universities Act, No.16 of 1978.

As 09 Lecturers including the Dean of the Faculty of Science of the University of Colombo holds the membership of the Board of Directors of this Company Limited, it was evident that the Subsidy Company is under complete control of the University. Accordingly, the financial statements of the Colombo Science and Technology Cell Company should be consolidated with the financial statements of the University of Colombo and presented to the Auditor General. Nevertheless, the Consolidated Financial Statements for the year ended 31 December 2016 had not been presented.

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.191,839 only had been paid to the University in lieu of the utilization of the resources of the University during the year under review.

2.2.2 Lack of Evidence for Audit

The Title Deeds for the confirmation of legal ownership of lands valued at Rs.35,296,230,000 shown in the statement of financial position had not been obtained even by the end of the year under review and the Vice Chancellor had informed me on 17 August 2017 that the process of transfers was in progress.

2.3 Accounts Receivable

The following observations are made.

- (a) Action had not been taken to recover 12 loan balances amounting to Rs.782,831 shown in the financial statements, despite a lapse of period ranging from 3 to 18 years.
- (b) Four employees in the Faculty of Medicine had resigned without settling the loans obtained and a loan balance amounting to Rs.288,399 was recoverable from them as at 31 December 2016. Even though a period ranging from 5 to 9 years had elapsed since the granting of loans to the relevant persons, no action had been taken to recover those money.
- (c) A sum of Rs.40,086, 005 was recoverable as at 31 December 2016 due to the breach of agreements by 30 Lecturers . Even though it was observed that a sum of Rs.8,121,094 out of the said amount was recoverable from 08 Lecturers, no action whatsoever had been taken to recover it despite an elapse of period ranging from 11 to 38 years.

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

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance
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- (a) Universities Act, No. 16 of 1978
Part II Section 15 (V)

Even though the approval of the University Grants Commission should be obtained for the courses to be conducted by any Higher Education Institution, 53 courses had been conducted by 04 Faculties of the University without obtaining such approval.

- (b) **Establishments Code of the
University Grants Commission
and Higher Education
Institutions**
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- (i) Sections 3.1 and 3.2 of
Chapter XX

Although the arrival and departure of all the academic and non-academic staff of the University should be recorded, salaries and allowances totalling Rs.1,375,562,712 had been paid without verifying the arrival and leave of 743 academic officers.

(ii) Section 18-3 of Chapter XXII In case of a person interdicted, the disciplinary inquiry against him should be concluded without delay. A person employed in the Labour Service in the University of Colombo had been interdicted with half pay from 09 December 2005 and a sum of Rs.1,885,809 had been paid as half pay for a period of 11 years and 06 months up to 30 June 2017. However, the relevant disciplinary inquiry had not been concluded.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

Financial Regulation 371 and the Public Finance Circular No.03/2015 dated 14 July 2015

(i) Although the advances should be settled immediately after the completion of the purpose for which it is granted, the advances aggregating Rs. 2,772,704 granted in 28 instances had been settled after a lapse of periods ranging from 47 days to 326 days.

(ii) Although the maximum limit of advances can be granted at a time is Rs.100,000, the University had granted advances ranging from Rs.149,940 to Rs.658,103 in 07 instances during the year under review.

(d) National Library and Documentary Services Board Circular No. PS/01 of 2004 dated 26 January 2004

Even though an Annual Board of Survey on library books should be conducted, an Annual Board of Survey on books for the year 2016 had not been conducted in respect of library books and periodicals valued at Rs.380,885,509 according to the financial statements .

(e) University Grants Commission Circular No.13/ 2015 of 18 September 2015

A motor vehicle was assigned and monthly fuel had been provided since the year 2015 to a Senior Lecturer (Senior Student Counselor) who was not entitled for transport facilities. The cost of fuel supplied in the year under review amounted to Rs.337, 720.

2.5 Transactions not Supported by Adequate Authority

According to a decision taken at the 499th Council Meeting held on 09 September 2015, an officer had been recruited on contract basis to the post of Senior Legal Consultant which was not included in the approved cadre and a sum of Rs.1,050,000 had been paid from the Administrative Fund during the year under review.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year under review had resulted in a surplus of Rs.176,157,091 as compared with the corresponding surplus of Rs. 326,038,151 for the preceding year, thus indicting a deterioration of Rs.149,881,060 in the financial results during the year under review as compared with the preceding year. Although the Government Grants had increased by Rs.338,034,192, the increase in the expenditure on employees remuneration by Rs.444,958,302 and other overhead expenditure by Rs.343,767,748 had been the main reason for the above deterioration.

According to an analysis of the financial results for the year under review and the 4 preceding years, the surplus had increased from the year 2012 up to the year 2016 with fluctuations. However, when taking into consideration the employees' remuneration, tax paid to the Government and the depreciation for the non-current assets adjusted again, the contribution of the University had continuously increased from the year 2012 up to Rs.2,968,791,856 by the year 2016.

4. Operating Review

4.1 Performance

According to the information made available by the University, the objectives of the University are the use of latest technology for teaching, upgrade the quality of educational courses to international standards, improve the facilities up to a high research level, uplift the social environment of the University, strengthen the skills of the academic and non-academic staff, upgrade the management systems and using knowledge and experience for the benefit of society.

The following observations are made with regard to the achievement of those objectives.

- (a) Attention had been paid in audit to 06 main performance criteria shown in the Corporate Plan prepared for the period from the year 2016 up to the year 2020 and the progress of those criteria that is, entering into Memorandum of Understanding between the industrial sector and the university for industrial corporation, conduct of public workshops, publication of books by the academic staff, proceeding abroad by the academic staff of the University under Exchange Programmes, presentation of Research Papers by the Post Graduates students and representation in international competitions by students, had been at a weak level representing a range between 8 per cent and 50 per cent. Attention was needed further in respect of the steady progress of performance under the said criteria.
- (b) The University of Colombo which had secured the 2,034th place in the World Ranking during the year 2015 had dropped to 2,171st place by the year 2016.

- (c) Even though the number of students approved to be enrolled for the Faculties of Science and Medicine in the years 2014,2015 and 2016 stood at 2,015,only 1,793 students had been enrolled. Thus, it was observed that 222 students had been deprived of the opportunity of entering the University.
- (d) Even though the number of students approved to be enrolled for the Faculty of Arts in the years 2014,2015 and 2016 had been 550, the number of students enrolled in those three years stood at 596,739 and 692 respectively. Thus, the number of students enrolled in excess during the 03 years had been 377. The number of students to be enrolled for the University had been decided several years ago and failure to pay attention to revise that number in timely manner by the Management had been the main reason for this situation.

4.2 Management Activities

The following observations are made.

- (a) The physical verification of books carried out as at 31 December 2015 revealed that, 27,367 books valued at Rs.3,292,524 had been misplaced. Except for writing off the cost of 3,298 books amounting to Rs.499,628 from the accounts in the year under review , no action whatsoever had been taken in this connection.
- (b) Out of the Government capital grants received by the University, a sum of Rs.140,910,000 had been saved by the end of the year under review and Rs.107,590,000 included therein had been saved without being utilized for relevant purposes over several preceding years.

4.3 Operating Activities

Advances totalling Rs.761,350 had been granted in respect of expenditure amounting to Rs.297,750 in 41 instances during the year under review due to the advances granted without an expenditure estimate properly forecasted.

4.4 Idle and Underutilized Assets

The following observations are made.

- (a) A sum of Rs.23,863,768 pertaining to 29 Fund Accounts maintained by the University as at 31 December 2016, had not been utilized for the relevant purposes.
- (b) According to the Stock Survey Report of the year under review, the immovable stock and the slow moving stock in the stores amounted to Rs.165,518 and Rs.259,760 respectively.
- (c) Even though the security electric gate erected at the entrance of the Library for the prevention of stealing books from the library was inoperative more than one year from 08 February 2016 up to 09 May 2017, the date of audit, it had not been repaired.

4.5 Procurement and Contract Process

The following observations are made.

- (a) In leasing out the book shop maintained in the university premises, a lessee had been selected deviating from the procurement process. The assessed rent of the building with 685 square feet where the book shop was maintained had not been considered and rented out to a same institution during the period from September 2008 up to December 2016. Thus, an income of Rs.966,668 had been deprived of. Further, no lease rental had been recovered from a bank and two milk bars located in the said premises.
- (b) As the Condition included in the specifications formulated for inviting bids in respect of providing security for universities during the period from 15 March 2016 up to 14 March 2018, required that 03 year experience of providing security for universities should be completed, 03 bids out of the bids received had been rejected. The second lowest bid of Rs.41,288,400 included therein was rejected and thus, the contract for procurement had to be awarded to the institution which submitted the fifth lowest bid of Rs.44,454,896. As such, a sum of Rs.7,332,992 had to be overpaid for the period from March 2016 up to March 2018 at Rs.3,666,496 per year.
- (c) An agreement for a sum of Rs.25,359,367 (including VAT) had been entered in to with a private company on 24 December 2013 in respect of the renovation of 50 toilets and 30 bath rooms of the Sujatha Jayawardhana Women's Hostel with 05 storeys belonging to the University. However, the University had informed the contractor on 16 June 2015 that the relevant contract agreement had been cancelled due to the delay of work. Even though the Performance Bond valued at Rs.1,132,114 obtained in terms of Section 5.4.8 of the Procurement Guidelines should be recovered by the University before the expiry, action had not been taken to recover it.

After the cancellation of said contract agreement, instead of selecting a contractor for the completion of remaining work valued at Rs.11,197,072 by following the procurement process, the remaining construction work of 5 storeys had been assigned separately to 5 contractors registered in the institution during the year 2015.

- (d) Due attention of the Management had not been paid to the repairing of the old building of Sujatha Jayawardhana Hostel, old buildings of Havelock Hostel and the ground floor of the front building and reverse buildings of Blot Formain Hostel. Nevertheless, it was observed that the students were occupying those hostels despite the dilapidated conditions.

4.6 Staff Administration

The following observations are made.

- (a) Three hundred and twenty five vacancies existed in the approved cadre as at 31 December of the year under review. Due to the 111 vacancies of Lecturers, Visiting Lecturers had been recruited and a sum of Rs.29,406,870 had been paid for obtaining the service of 379 Visiting Lecturers during the year under review.

- (b) There were vacancies in 05 posts of typist and 17 posts of stenographer which were not timely important and instead, attention had not been paid to the creation of posts with timely importance.

5. Accountability and Good Governance

5.1 Budgetary Control

Variances ranging between 10 per cent and 100 per cent were observed between the budgeted expenditure and actual expenditure of 20 Objects in the Budget of the year under review, thus observing that the budget had not been made use of as an effective instrument of management control.

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
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(a) Management of Fixed Assets	Failure to establish the ownership of the property, poor level of maintenance and disposal of assets.
(b) Accounts receivable and payable	Failure to take necessary action for the settlement of balances.
(c) Maintenance of Funds	Non-utilization of funds in respect of the specific purposes for which the Funds were established.
(d) Contract Administration	Failure to maintain the relevant files properly and weak level of supervision.
(e) Staff Administration	Failure to record the arrival and the departure of the academic staff.
(f) Library Administration	Failure to conduct the Board of Surveys on library books properly, Failure to maintain comparative registers properly.
(g) Operating Control	Non-maintenance of hostels in a manner to carry out the academic purposes of students in a suitable environment.