

Rajarata University of Sri Lanka - 2017

The audit of financial statements of the Rajarata University of Sri Lanka for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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 Sections 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 Rajarata University of Sri Lanka 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 judgements, 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 the 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 of opinion, except for the effects of the matters described in paragraph 2.2 of the this report, the financial statements give a true and fair view of the financial position of the Rajarata University of Sri Lanka as at 31 December 2017 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.

Sri Lanka Public Sector Accounting Standard 01

- (a) In terms of Paragraph 80 of the Standard, the liabilities which are due to be settled within twelve months after the reporting date shall be classified as current liabilities and all other liabilities shall be classified as non-current assets. Nevertheless, contrary to that the balance of lease creditors amounting to Rs.3,202,260 as at 31 December 2017 had been stated under the non-current liabilities.
- (b) Disclosures on a sum of Rs .3,784,401 receivable by the University from a lecturer for breaching bonds agreements in the year 2017 had not been made in notes to the financial statements in accordance with Paragraph 127 of the Standard.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Out of the service charges amounting to Rs,346,030 paid during the year under review, a sum of Rs.288,362 was applicable to the year 2017 and Rs.57,668 remained relating to the year 2018. Nevertheless, such charges had been brought to account as Rs.57,668 for the year under review and Rs.288,362 for the year 2018. Accordingly, deficit for the year under review and the payments made relating to the ensuing period had been understated and overstated by Rs.230,694 respectively.
- (b) Although the depreciation value stated in the statement of financial performance amounted to Rs.393,915,972, it was Rs.389,488,843 according to the computation of the Audit. Accordingly, deficit of the year under review had been overstated by Rs.4,427,129 while net value of Property Plant and Equipment had been understated by that amount in the statement of financial position.

- (c) The bursary, Mahapola Scholarship allowances and wages totalling Rs.18,145,775 payable as at 31 December of the year under review had been stated as other payable expenditure under the capital funds instead of being accounted under the current liabilities in the statement of financial position.
- (d) Revenue of Rs.1,027,954 received from the sale of obsolete stocks during the year under review included a revenue of Rs. 365,500 received from the sale of unserviceable fixed assets. Nevertheless, steps had not been taken to recognize the cost and the accumulated depreciations of such assets and eliminate them from the relevant assets accounts and provisions for depreciation accounts.
- (e) Although a sum of Rs. 63,748,316 (except for the accrued expenditure of the Faculties) had been shown as accrued expenditure in the statement of financial position, it was Rs.66,521,696 according to the computation of the Audit. As such, the accrued expenditure and the deficit of the year had been understated by Rs.2,773,380.
- (f) The following matters were observed in the examination of cash flow statement pertaining to the year under review.
 - (i) Although a sum of Rs.1,070,521,983 had been shown as the acquisition of Property Plant and Equipment under cash outflow from investment activities, it had included non-cash flow assets worth Rs.3,422,115 received as donations and sums totalling Rs.44,133,742 comprising the value of equipment received without making payments during the year under review and retention money relating to the purchased equipment. As such, the net cash flow from the investment activities had been overstated by Rs.47,555,857.
 - (ii) Although the cash inflow from researches and other funds amounted to Rs.48,232,282 during the year under review, it had been stated as Rs.33,316,246 in the cash flow statement and as such, the net cash flow from financial activities had been understated by Rs.14,916,036.
- (g) When stating the money received from the Mahapola Trust Fund under the revenue in the statement of financial performance of the year under review, although a sum of Rs.3,169,650 had been returned to the Fund, that amount had not been deducted and shown and as such, income of the year and the expenditure relating to the payment of Mahapola funds had been overstated by that amount.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the stock verification reports, the balances of stocks of the Main Stores and other 06 sub-stores totaled Rs.27,006,122 as at 31 December 2017. Nevertheless, those balances totalled Rs.26,729,978 according to the financial statements and as such, a difference of Rs.276,144 was observed.

- (b) A difference of Rs.8,493,870 was observed between the expenditure stated in 04 Recurrent Objects in the revenue statement and the schedules relevant thereto.
- (c) A difference of Rs.71,228 was observed between the balances indicated as per the balance confirmation relating to 04 fixed deposits as at 31 December 2017 and the balances shown in the financial statements.
- (d) Although the sundry deposit balance shown under the current liabilities in the statement of financial position amounted to Rs.7,509,780, it was Rs.7,357,688 according to the ledger account. Accordingly, a difference of Rs.152,092 was observed.

2.2.4 Lack of Evidence for Audit

The following observations are made.

- (a) Eight officers who had been assigned official vehicles had obtained 8,045 litres of fuel valued at Rs.809,707 in respect of using the vehicle on special occasions exceeding the approved limit and no documentary evidence whatsoever had been furnished relating to the official tours engaged in using additional fuel.
- (b) Three pool vehicles of the University had been deployed in the service outside the district during the year under review and a sum of Rs.195,193 had been spent for the fuel used to run vehicles for 21,678 kilometers in 51 instances. No evidence whatsoever had been furnished to Audit regarding the duties relevant to those tours and the running charts marked relating running vehicles for 12,267 kilometers in 29 instances had not been signed by any officer.

2.3 Non-compliance with Laws, Rules, Regulation and Management Decisions

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

Reference to Laws, Rules, Regulation etc.	Non- compliance
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(a) Section 94 of the Universities Act No.16 of 1978.	Although the funds received by the University from whatever the source should be credited to the University Fund, sums totaling Rs.54,405,194 comprising the course fees recovered from the foreign students registered with the Faculty of Medicine from the year 2013 to 31 December 2017 and the interests of the Resident Foreign Currency Account had not been credited to the University Fund and it had been credited to the Medical Faculty Fund and used for the foreign tours of the academic staff.

- (b) Sections 8 a (i) and (ii) of the Act No.94 of 1978 as amended by the Urban Development Authority Act No.04 of 1982. Plans relating to 05 constructions carried out by the University during the year under review had not been approved by the relevant local authority and development permit had not been obtained. The Certificate of Conformity had not been obtained for any building constructed during the year under review and the preceding years.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
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- (i) Financial Regulations 134 (3) Copies of the Internal Audit Report of the University had not been furnished to the Auditor General.
- (ii) Financial Regulation 571 (2) Action in terms of the financial regulations had not been taken on the deposits for the cafeteria amounting to Rs.256,500 relating to the period from 2012 to 2015, contract deposits of Rs.1,079,207 and retention money on contracts amounting to Rs.22,731,064 retained in the accounts during a period ranging from 02 years to 13 years.
- (d) Public Finance Circular No.03/2015 dated 14 July 2015. Although the maximum amount of advance payable to an officer for a specific purpose was Rs.100,000 at a time, advances amounting to Rs.3,591,240 from Rs.125,000 to Rs.363,300 had been granted in 20 instances during the year under review exceeding the above limit and action had not been taken to obtain approval thereon according to the provisions specified in the circular.
- (e) University Grants Commission Circular
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- (i) Paragraph 4 of the Circular No.13/2015 dated 18 September 2015. In exceptional instances where the monthly fuel limit is insufficient for the duties assigned to an officer who owns an official vehicle, expenditure for the additional fuel should be incurred subsequent to obtaining approval of the Chairman of the University Grants Commission in respect of such expenditure relating to the Vice Chancellor and the approval of the Board of

Governance should be obtained relating to the other officers. The expenditure thus incurred on fuel should be reimbursed based on the consumption of additional fuel. Nevertheless, without being taken action accordingly, 8,045 litres of fuel had been issued to 08 officers during the year under review irrespective of the approved limit.

- (ii) Circular No.981 dated 23 April 2012. For the compilation of semester theses of the graduates, payments should be made to the academic staff at Rs.600 per theses and in the event of involving more than one member for the compilation of one theses, the above sum can be paid by equally dividing the same among such members. Nevertheless, Rs.384,560 had been paid for all the participants at Rs.600 each during the year under review.
- (iii) Circular No.982 dated 30 April 2012. For each member of an interview board conducted relating to the recruitments and promotions, payments should be made at Rs.50 per interviewee subject to a minimum of Rs.1000. Nevertheless, without being complied with the circular instructions, sums totaling Rs.185,000 had been overpaid to the members of the interview board in 15 instances at Rs.1,000 per candidate.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the University for the year ended 31 December 2017 had resulted in a deficit of Rs.82,650,092 as against the surplus of Rs.115,086,984 for the preceding year, thus showing a deterioration of Rs.197,737,076 in the financial results of the year under review as compared with the preceding year. The above deterioration was mainly attributed to the increase in the staff expenditure by Rs.92,375,965 and decrease in the recurrent grants by Rs.54,825,000.

In analyzing the financial results of the year under review and 04 preceding years, the deficits observed in the years 2013 had become a surplus in the year 2014 and it had turned out to be a deficit again in the year 2015 and a surplus in the year 2016 and again it had become a deficit during the year under review. However, when readjusting the employees' remuneration and the depreciation for the non-current assets to the financial result, the contribution of the University amounting to Rs.654,773,984 in the year 2013 had incessantly increased up to Rs.1,261,528,920 by the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Functions and Review

The guideline named “ Operating policy and procedure for Calculation of workload of Academic Staff” recommended by the Senate on 18 August 2016 and approved by the Council of the University on 01 November 2016 for the evaluation of academic performance of the University had not been implemented within the University even by 30 August 2018.

4.2 Management Activities

The following observations are made.

- (a) Due to the order made by the Labour Tribunal, Anuradhapura determining that the decision taken by the University to not grant an extension of service to an employee was a course of action taken disregarding the law, a compensation of Rs.162,609 out of the University Fund had to be paid to a University employee who was not received an extension of service.
- (b) In terms of Financial Regulation 155, it shall be the responsibility of the Accounting Officer to take immediate action in connection with the audit queries received by the University and furnish the comprehensive replies forthwith inclusive of the steps taken thereon. Nevertheless, replies for 03 of 20 audit queries issued during the year under review and the preceding year had not been received up to 12 October 2018. Further, a period from 01 month to 09 months had been delayed from the expected date to give replies for 17 audit queries.
- (c) The Management Audit Reports issued by the Auditor General relating to the period of 05 years from 2012 to 2016 in terms of Section 13 (7) (a) of the Finance Act, No.38 of 1971 had not been brought to the notice of the Council and action in terms of Section 13 (8) of the Act had not been taken thereon.

4.3 Operating Activities

Although the Rs.673 million had been approved for the first stage of the construction of the building in which the Professors Unit of the Faculty of Medical and Allied Sciences was situated, at the time of completion of the work of that stage in the year 2011, the total value of the works had been Rs.814.19 million. However, approval of the Cabinet had not been obtained for its over expenditure of Rs.141 million.

4.4 Uneconomical Transactions

The following observations are made.

- (a) Since the half yearly returns to be sent to the Employees Trust Fund in terms of the Employees Trust Fund Act, No.46 of 1980 had not been furnished on due date, a sum of Rs.489,295 had been paid as the surcharges to the Fund and the University had not taken any action against the officers who had delayed the submission of those returns.
- (b) Since the University had not paid the water bills of the houses obtained on rent for the maintenance of students hostels during the year under review, a penalty for delays amounting to Rs.45,075 and a sum of Rs.10,350 as the charges for reconnecting the disconnected water supply had been paid.

5 Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should comply with the 2030 Agenda for Sustainable Development adopted by the United Nations. As the University had not been aware as to how to act in regard to the activities under its purview, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

Further, the University had not responded to the questionnaire presented by the Auditor General on the preparedness of the University regarding the achievement of sustainable development goals.

6. Accountability and Good Governance

6.1 Internal Audit

In order to evaluate the performance of the Internal Audit of the University according to the Internal Audit Circulars issued by the Department of Management Services of the General Treasury to be read in conjunction with provisions in Financial Regulations 133 and 134, information on the performance of the Internal Audit Division had been called for by the Letter No.NCP/AP/E/RUSL/2018/05/13 dated 11 May 2018. Nevertheless, above information had not been furnished to Audit and as such, progress of the internal audit could not be evaluated.

6.2 Audit Committees

Decisions and recommendations of the Audit Committees held in the year under review had not been brought to the notice of the Council.

6.3 Procurement and Contract Process

6.3.1 Procurements

The following observations are made.

- (a) In order to construct a kitchen for the main cafeteria of the University, the contract had been awarded at an agreed value of Rs.2,668,999. Although a sum of Rs.258,800 had been paid to the contractor for 10 items of works referred to in the Engineering Estimate, building materials used and other items were not in conformity with the specifications.
- (b) The specifications inclusive of bid documents prepared for the purchase of 610 steel bunk beds worth Rs.15,069,440 had not been properly approved by the Technical Evaluation Committee. Although the length of the bed required to be purchased by the University was 1875 mm and the width was 825 mm, the specification on the width of the bed had been stated as 825 mm and 975 mm in two sizes in the bid documents. Accordingly, the prices quoted by the bidders for two sizes had ranged from Rs.19,500 to Rs.62,000. In the evaluation of those bids, the bids that had quoted higher prices had been put away and 03 minimum bids only had been evaluated. Out of the above 03 bids, the bid that had satisfied the necessary specifications had been rejected and the beds had been purchased at higher price, thus causing a loss of Rs.504,378 to the University Fund.
- (c) In obtaining goods, services and works, the Government Procurement Guidelines, 2006 should be followed. Nevertheless, contrary to that a camera purchased at US\$ 2,998 by a lecturer of the Medical Faculty during his foreign tour had been handed over to the University on his return to the country and a sum of Rs.456,745 had been reimbursed from the Medical Faculty Fund thereon.

6.3.2 Deficiencies in the Contract Administration

A contract at an agreed value of Rs.52,703,236 had been awarded for the construction of 04 dual official quarters. Due to the deficiencies found relating to the basic qualifications of the selected contractor, the Technical Evaluation Committee had recommended to pay 10 per cent of the mobilization advances subsequent to establishment of the site and the balance 10 per cent after exceeding 20 per cent of the value of the completed works. However, irrespective of that 20 per cent or Rs.10,540,647 of the agreed value had been paid as the advances at the same time. Although these constructions should have been completed by 05 July 2017 according to the agreement, contractor had discontinued the construction halfway and abandoned the contract by 05 August 2018.

6.3.3 Delayed Projects

The following observations are made.

- (a) In order to construct a four storied building at a cost of Rs.143.3 million for the establishment of Distance and Continuous Education Centre of the University, an agreement had been entered into on 24 August 2017 and an advance of Rs.16,449,500 had been paid to the contractor on 18 September 2017. According to the agreement, the relevant constructions should have been completed by 16 December 2018, whereas works of the contract had not been initiated even by 30 September 2018. Since a feasibility study inclusive of necessary basic preparations for the procurement activities had not been conducted before the commencement of procurement activities in terms of Guideline 2.3.1 of the Government Procurement Guidelines and Green Certification required for the construction of buildings had not been obtained from the Urban Development Authority, constructions could not be commenced and advance had been retained by the contractor for more than a period of one year. Nevertheless, the University had not taken adequate steps in this connection.
- (b) According to the request made by the Dean of the Faculty of Applied Science on 06 September 2016 to provide necessary furniture for the Physical Laboratory of the above Faculty, procurement activities had been commenced. Nevertheless, due to the weaknesses found in taking procurement decisions, relevant supplies had not been done despite lapse of period for more than one year up to the end of the year under review.

6.4 Unresolved Audit Paragraphs

Implementation of the directives issued by the Committee on Public Enterprises held on 21 March 2018 and 03 April 2018 was not at a satisfactory level. Details appear below.

Matters subjected to discussions	Matters agreed with the Committee and the recommendations of the Committee	Current position
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(a) A financial loss had been incurred in the supply of water to the hostels by bowers without calling for competitive bids. A lecturer of the University had acted as a supplier.	i To conduct an inquiry with regard to the process adopted by the University for obtaining water and report to the Committee on Public Enterprises within a period of one month.	Although a preliminary inquiry had been conducted in this regard, the recommendation of that inquiry report had not been implemented even by 15 August 2018.

- ii To take special measures to look into the reasons for falling vacant the post of Internal Auditor and solve that matter since these deficiencies occur due to weaknesses of the internal audit activities. Necessary steps had not been taken to approve the post of Internal Auditor and make recruitments.

(b) By fraudulently altering the Engineering Estimate presented by the State Engineering Corporation relating to the project for the construction of a wall around the Vice Chancellor's official quarters and rejecting the minimum bid, contract had been awarded to the bidder who had presented higher bids.

To look into whether there was a necessity to change the estimate presented by the State Engineering Corporation, the impact resulting from the change and to report to the Committee on the preparation of a mechanism to prevent such errors from repeating.

There was no evidence that action had been taken in accordance with the directive issued by the Committee.

7. 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 Control	Observations
(i) Accounting	Existence of differences between the values stated in the financial statements, and Ledger Accounts values and subsidiary documents. In the disposal of capital assets, those balances had not been eliminated from books according to a proper accounting method.
(ii) Contract Administration	There were instances where action had been taken contrary to the Procurement Guidelines.
(iii) Stock Control	In the valuation of stocks, differences between the physical balances and book values had not been compared and recognized.
(iv) Vehicle Control	In allocating pool vehicles, duty requirements had not been recognized and fuel had been provided for assigned official vehicles exceeding the prescribed limits.
(v) Library Administration	There were delays ranging from 3 months to 2 years in returning library books obtained by the members of the academic staff.