

## **University of Colombo – 2017**

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The audit of financial statements of the University of Colombo 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 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**

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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 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 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 University of Colombo 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**

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#### **2.2.1 Non-disclosure of Transactions with related Parties**

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A Company Limited by Guarantee 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.

The membership of the Board of Directors of this Company is held by 09 Lecturers including the Dean of the Faculty of Science of the University of Colombo.

The Head Office of this Company had been housed in a building belonging to the Faculty of Science of the University and the other physical and human resources including computer accessories of the University had been utilized, whereas an agreement had not been entered into on the utilization of the property of the University. Only a sum of Rs.246,144 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 Accounting Deficiencies**

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The following observations are made.

- (a) In the comparison of reports on Boards of Survey with the invoices relating to the year 2017 of the Maintenance Division, differences were noted between the prices of units of goods indicated therein. Accordingly, the value of the stock subjected to sample test as at 31 December 2017 had been over computed by Rs.9,088,403. Moreover, a stock valued at Rs.16,819 remained physically in the stores of the said Division, had not been shown as closing stocks in accounts.
- (b) A stock valued at Rs.10,804,891 remained as at 31 December 2017 in the Faculty of Medicine and the Faculty of Science. However, that stock had not been shown in accounts as the closing stock.
- (c) Advances totalling Rs.223,050 granted in 02 instances in the year 2017 which remained unsettled as at 31 December 2017, had been brought to account as an expenditure instead of showing as unsettled advances in the financial statements.

(d) The following deficiencies were observed in the examination of the cash flow statement.

- (i) In addition to the value of Government grants shown under financial activities, unspent capital grants valued at Rs.542,597,096 which was a transfer between accounts of reserves and funds, had been adjusted as receipts of cash in the cash flow statement. Moreover, foreign currency profits valued at Rs.363,760 not received to the University under investment activities, had been included.
- (ii) Even though the balance of Rs.146,808 remained in a savings account, should be shown under cash and cash equivalents in the statement of financial position, it had been shown under investments.
- (iii) The sums of Rs.2,139,915 and Rs.174,478,148 shown as other receivables and advances respectively under non-current assets in the statement of financial position, had been shown under difference in working capital in preparing the cash flow statement.

### **2.2.3 Unexplained Differences**

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The following observations are made.

- (a) According to the Register of Sundry Advances relating to the Faculty of Science, the unsettled balance as at 31 December 2017 amounted to Rs.298,963. However, the balance shown in the financial statements amounted to Rs.358,963, thus observing a difference of Rs.60,000 in the value of advances.
- (b) Even though the balance of the Savings Account on Collection of Income from Courses amounted to Rs.690,282 as at 31 December 2017. However, according to the Letter of Confirmation of Bank Balances, the said balance was Rs.7,091,000, thus observing a difference of Rs.6,400,718.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of the loan amounting to Rs.3,711,000 granted by the University to 15 officers, loan balances of Rs.1,348,995 remain between a period of 02 years and 15 years and those loan balances could not be recovered.
- (b) Out of the advances granted in the years 2015, 2016 and 2017 as Amalgamated Club Loan for settling of expenses relating to the Annual Sport meet of the University, a balance of Rs.4,474,645 had not been settled even by 14 September 2018, the date of Audit.

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

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

<b>Reference to Laws, Rules, Regulations, Management Decisions etc.</b>	<b>Non-compliances</b>
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(a) <b>Establishments Code of the Democratic Socialist Republic of Sri Lanka</b>	
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(i) Paragraph 5 of Chapter XIX	
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In the recovery of house rent, contrary to the relevant Regulation, 10 per cent of the basic salary of a married officer and 3 per cent of the basic salary of an unmarried officer had been recovered at the 496<sup>th</sup> and 506<sup>th</sup> meetings of the Council held on 09 July 2015 and 09 March 2016 respectively by the Council of the University.

The Council of the University had decided at the 487<sup>th</sup> meeting held on 10 September 2014 to discontinue the recovery of house rent from 31 December 2014 relating to official quarters bearing No.7/7/9 with an extent of 1,050 square feet, allocated to the Registrar from 01 February 2002, contrary to the provisions of Circulars.

(ii) Paragraph 6 of Chapter XIX	
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Except for quarters attached to a particular post, the period of tenancy of all other quarters will be 05 years. However, it was observed that officers of 09 quarters were occupying them during a period from 06 years to 16 years.

(b) <b>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>	
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(i) Financial Regulations 104 (3) and (4)	
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The motor vehicle valued at Rs.4,750,000 owned by the University had met with an accident on 03 January 2017 and action had not been taken in terms of Financial Regulations in fixing of responsibility. Even though a preliminary investigation had been conducted relating to the accident, a preliminary report and a full report had not been submitted.

- (ii) Financial Regulation 371 and the Public Finance Circular No.03/2015 dated 14 July 2015
- In granting advances, the maximum limit of advances that can be granted at a time is Rs.100,000. Even though advances totalling Rs.412,619 ranging from Rs.130,618 to Rs.150,000 in 03 instances in the Sripalee Campus and advances totalling Rs.4,153,393 ranging from Rs.150,422 to Rs.369,150 in 14 instances to 16 officers of the University had been granted, the approval required therefor had not been obtained.

Even though the advances should be settled immediately after the completion of the purpose for which it is granted, advances totalling Rs.361,540 obtained in 06 instances by the Sripalee Campus had not been settled even by 10 January 2018 and it was observed that the unsettled period ranged from 13 days to 12 months. Moreover, it was observed that advances valued at Rs.2,411,812 granted to persons and institutions by the University in 22 instances in the years 2012, 2016 and 2017, had not been settled even by 17 August 2018, the date of Audit. Further, action had not been taken even up to 14 September 2018 to settle a sum of Rs.804,260 granted in the year under review as advances to the Lecturers for research purposes

(c) **Universities Establishments Code**

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- (i) Sections 3.1 and 3.2 of Chapter XX
- Even though the arrival and departure of all the academic and non-academic staff of the University should be recorded, the arrival and leave of 821 academic officers could not be verified. As such, the accuracy of salaries and allowances totalling Rs.822,509,565 could not be verified.
- (ii) Section 11.1 of Chapter XXII
- The Tribunal/Inquiry Officer should as far as possible sit continuously from day to day until a conclusion is arrived at, and the inquiry should be completed within three months. However, the disciplinary inquiry relating to a Lecturer interdicted on 25 April 2016 had not been concluded even up to March 2018 and a period of 01 year and 10 months had lapsed therefor.
- (iii) Section 3 of Chapter XXVI
- According to the report on Board of Survey on Library Books conducted in the year 2015 in the Sripalee Campus, 713 books valued at Rs.162,311 and 06 books valued at US\$ 126 had been misplaced and action had not been taken in terms of relevant Regulations relating to the lost books.

- (d) University Grants Commission Circular No.636 dated 14 July 1995 In the issue of examination results, they should be issued within a period of 03 months from the date the examination was held. Nevertheless, a period between 05 and 12 months had lapsed for issuing results of 06 examinations held during the year under review by the Sripalee Campus.

### **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 2017 had resulted in a surplus of Rs.100,339,281 as compared with the corresponding surplus of Rs.176,157,091 for the preceding year, thus indicating a decline of Rs.75,817,810 in the financial result of the year under review as compared with the preceding year. Even though the Government grants and other grants had increased by Rs.143,645,382, the increase in the employees remuneration by Rs.274,467,864 had been the main reason for the above decline.

In the analysis of the financial results for the year under review and 4 preceding years, the surplus which was Rs.214,339,468 of the year 2013 had been Rs.100,339,281 with fluctuations by the year 2017. However, after readjusting the employees' remuneration, depreciation and tax paid to the Government to the financial result, the contribution of Rs.1,788,616,882 of the University for the year 2013 had continuously increased up to Rs.3,198,399,374 in the year under review.

#### **3.2 Legal Action instituted by or against the University**

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Thirty seven legal proceedings relating to the University of Colombo had remained without being concluded from the year 2000 to 31 December 2017 and these legal proceedings belonged to a period ranging from 03 years to 17 years. Moreover, a sum of Rs.3,373,674 had been spent as legal fees for the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Function and Review**

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A building in the Colombo University premises had been allocated for the Virtual Campus University of Colombo – Coordinating Centre (VCUC – CC) since the year 2016. Moreover, assets valued at Rs.1,341,239 had been purchased in the years 2013, 2014 and 2015 by the Higher Education for the Twenty First Century Project (HETC). However, the assets purchased had remained idle due to failure in recruiting the staff approved for the year 2012.

## 4.2 Management Activities

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The following observations are made.

- (a) The Bhikku Hostel of the University is maintained in a private building on lease rent from the year 2006 and a sum of Rs.3,900,000 had been paid for the year 2017 at a monthly rate of Rs.325,000. Even though clauses that the repairs of the hostel should be carried out by the lessee, was included in the lease agreement entered into on 18 January 2017, the hostel had not been repaired for many years. As such, the bathrooms and toilets had become unusable and the walls had become discoloured. A sum of Rs.25,555,000 had been paid as rent up to the end of the year under review for the hostel maintained on rental basis for over a period of 10 years. Even though the University was permanently in need of a Bhikku Hostel, it was observed that the said purpose had not been achieved even up to now.
- (b) In the examination of files on repairs of motor vehicles, notes relating to repairs identified as motor vehicle accidents and direct accidents were available in files. However, action had not been taken in terms of Section 6 of the Universities Establishments Code in this connection. It is observed that the impossibility of revealing information on accidents exists and that the opportunity of claiming insurance coverage for repairs is also lost due to failure in taking action relating to accidents in such a manner.
- (c) Goods relating to 34 orders valued at Rs.1,917,285 sent to suppliers from January to November 2017 had not been supplied to stores even up to 31 December 2017. It had been informed to Audit that the said orders had been cancelled after the audit queries.
- (e) Even though the enrolment of 515 students was possible to the Faculty of Science, the number of students that had been enrolled for the academic year 2017 was only 404. Accordingly, it was observed that 111 students were deprived of the opportunity in entering University.
- (f) Sripalee Campus
  - (i) The Boys' Hostel and 3 lecture halls of the Campus are very old and as repairs had not been carried out from a long period, it was observed that they were not in a condition fit enough for the students to proceed with their studies.
  - (ii) It was observed that there was a lack of space facilities and minimum common facilities in the administrative building and a risk of cracking and sinking of a part of the building. In this condition, provisions of Rs.149.47 million had been made by the Ministry of Higher Education on 28 October 2016 on Cabinet approval for construction of a new building. However, necessary action had not been taken up to 08 October 2018 to construct the building.

- (iii) The Campus was not equipped with a gallery fit for the studies of students and even though lighting is necessary for practical examinations of students, the University had not provided them with those facilities.
- (iv) According to Work Norms and Time Tables, in the comparison of the number of lecture hours that should be conducted by each Lecturer with the number of lecture hours that should be conducted actually, instances were observed in which the number of lecture hours mentioned in the time table was not covered by the Lecturers.
- (v) Even though the academic affairs and examinations should be conducted on a year planner, it was observed that 05 examinations had been held for 04 Courses without such an expected date.

#### **4.3 Operating Activities**

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According to financial statements, the value of goods which can be auctioned was shown as Rs.2,888,935 and out of that, goods valued at Rs.1,455,582 were those which had been decided to be auctioned in the years 2014 and 2016. However, those goods had not been auctioned even up to the end of the year under review.

#### **4.4 Breach of Agreements and Bonds**

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A sum of Rs.43,349,296 was recoverable as at 31 December 2017 due to breach of agreements by 32 Lecturers. The balance of Rs.18,358,698 recoverable from 10 Lecturers out of them had lapsed for a period ranging from 21 to 40 years. Nevertheless, no amount whatsoever had been recovered.

#### **4.5 Staff Administration**

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The following observations are made.

(a) Academic Staff

The number of approved posts in the academic staff stood at 753 while the number of vacancies as at the end of the year under review stood at 190. Out of these, 30 posts of Senior Professor and Professor had been vacant and a sum of Rs.143,602,216 had been paid for obtaining the service of 263 visiting Lecturers in the year 2017.

(b) Non-academic Staff

- (i) The approved cadre of the Non-academic staff stood at 1,119 while 278 posts were vacant as at 31 December of the year under review. Out of 301 approved posts of Management Assistant, 66 were vacant. Moreover, the Vice Chancellor had informed the Audit that there are delays due to filling these vacancies through the Register sent by the Ministry of Higher Education.



- (ii) Five and 19 posts of Technical Officer and Technical Officer (Information Communication) respectively had been vacant and no Scheme of Recruitment had been issued by the Commission for the posts of Technical Officer (Information Communication). As such, the Vice Chancellor had informed the Audit that the said vacancies could not be filled.
- (iii) In addition to his duties, a Senior Lecturer of the Faculty of Law of the University had been appointed to the post of Senior Legal Consultant which was not included in the approved cadre, on a decision taken at the 499<sup>th</sup> meeting of the Council held on 9 September 2015 and he had been paid a sum of Rs.12,000,000 in the year under review from the Administration Fund.

#### **4.6 Utilization of Motor Vehicles**

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In terms of University Grants Commission Circular No.13/2015 dated 18 September 2015, the posts such as Vice Chancellor, Registrar, Bursar, Librarian and Dean are entitled to official motor vehicles. Even though payments should be made by adding the fuel allowance to the monthly salary for motor vehicles allocated for them, fuel had been supplied for allocated motor vehicles by University fuel orders without paying as an allowance. Accordingly, it was observed that fuel had been supplied by fuel orders, exceeding the monthly fuel allowance. Even though the fuel allowance payable from January to August 2017 for 07 officers amounted to Rs.1,053,540, the value of fuel supplied by orders amounted to Rs.2,345,437. As such, it was observed that a sum of Rs.1,291,897 had been spent in excess over the entitled fuel allowance.

### **5. Sustainable Development**

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#### **5.1 Achievement of Sustainable Development Goals**

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The University of Colombo was aware of the Year 2030 “Agenda” of the United Nations on sustainable development and had taken action to identify the goals and targets, focal points in reaching those targets and the indicators for achievement of those targets. Activities necessary for the implementation of objectives such as poverty alleviation programmes, budgeting according to gender equality, empowerment of disabled persons, enhancement of environmental sustainability and conservation of water and energy had been commenced in the year 2017.

### **6. Accountability and Good Governance**

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#### **6.1 Budgetary Control**

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Variances ranging from 40 per cent to 153 per cent were observed between the budgeted expenditure and actual expenditure relating to 20 Recurrent Objects. Provisions of Rs.52,902,908 received from the Treasury for the projects of Empowerment of Research, Internationalization of Universities, Improvement of Knowledge and Institutional Development and Human Capital Projects under capital grants had been transferred to the

Objects of Improvement of Buildings and Acquisition of Fixed Assets during the year. As such, it was observed that the budget had not been prepared and reviewed from time to time and made use of as a realistic instrument of control.

## 7. **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>
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(a) Operating Control	Non-maintenance of hostels in a manner to carry out the academic purposes of students in a suitable environment and failure in taking action to finalise legal proceedings.
(b) Accounts Receivable and Payable	Failure to take necessary action for the settlement of balances.
(c) Staff Administration	Failure in expedite recruitment and in recording the arrival of the academic staff.
(d) Library Administration	Improper maintenance of Registers relating to misplacements.
(e) Stores Control	Non-maintenance of Registers with correct information
(f) Control of Motor Vehicles	Failure in reporting motor vehicle accidents