

University College of Rathmalana – 2017

The audit of financial statements of the University College of Rathmalana Affiliated to the University of Vocational Technology 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 net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 47(2) of the University of Vocational Technology Act, No. 31 of 2008. My comments and observations which I consider should be published with the Annual Report of the University 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 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.

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 College of Rathmalana 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 Accounting Deficiencies

The following observations are made.

- (a) A sum totalling Rs.1,589,998 which had been spent and received to the College for the build-up of the capacity building under capital grants in the years 2016 and 2017, had been debited as build-up of capacity under property, plant and equipment to the Capital Grants Account instead of accounting as recurrent income and expenditure in each year. As such, those accounts had been overstated by that value.
- (b) A bank overdraft amounting to Rs.5,177,107 was existed as at 31 December in the year under review and the said balance had been shown as a negative balance under current assets instead of shown under current liabilities in the statement of financial position.
- (c) Even though the balance of the Capital Grants Account should be Rs.295,549,228 as at 31 December 2017 according to the computations of audit, the said balance had been shown as Rs.323,848,000 according to the statement of financial position. However, the statement of financial position had been balanced showing the difference amounting to Rs.28,298,772 as a differed income under non-current assets.
- (d) A sum of Rs.1,225,000 which had been deposited in a savings account in which collected Rs.5,000 each from 245 students for the library and laboratory deposits in the year under review had been omitted from the accounts.

2.3 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) Section 4 of Chapter XIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. | Instead of paying combined allowances and travelling allowances in terms of Section 4.1.1 of the Establishments Code for the officers who engaged in training courses , a sum amounting to Rs.38,269 spent for food and accommodations had been reimbursed in 03 instances. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.
Financial Regulation 381 | Application to open an official bank account , should be made through Chief Accounting Officer to the Treasury / (Department of State Accounts) .However, contrary to that, the University College had opened a separate account for the library and laboratory deposits received from the students. |
| (c) Public Enterprises Circular No.PED/12 dated 02 June 2003
(i) Section 7.4.5 | A Board of Survey had not been carried out relating to the fixed assets of the University College for the year under review. |
| (ii) Section 8.10(c) | The University College had obtained bank overdraft facilities amounting to Rs.884,029 in December 2017 and overdraft interest amounting to Rs.1,732 had been paid for that . However, approval of credit limits in terms of the Circular had not been carried out. |

2.4 Transactions not confirmed with Adequate Authority

The following observations are made.

- (a) This Institution had been established with a view to conduct Diploma Courses in NVQ level 5,6 but payments totalling Rs.1,598,025 had been made as lecture fees for visiting lecturers ,fees for preparation of examination question papers for the students and fees for conducting interviews for recruiting the staff and non- staff grades based on the Circulars issued by the University Grants Commission and for the NVQ 7 courses without a proper approval.
- (b) A sum of Rs.975,400 had been paid to the staff for the year under review for the preparation of question papers, marking answers and the examination duties, only on the approval of the Board of Control without making approval for a proper methodology for the payments.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the operations of the University College for the year ended 31 December 2017 had resulted in a deficit of Rs.8,511,971 as against the surplus of Rs.529,712 for the previous year thus observed a deterioration of Rs.9,041,683 in financial results in the year under review as compared with the preceding year. Increase of employee cost by Rs.10,643,215 and the service expenses by Rs.4,079,118 in the year under review as compared with the preceding year had been the main reason for the above deterioration.

4. **Operating Review**

4.1 **Performance**

4.1.1 **Planning**

The University College had obtained equipment and services valued at Rs.6,668,815 contrary to the Procurement Plan prepared for the year 2017. As such, it was observed that the procurement Plan had not been made use of an effective instrument of management control.

4.1.2 **Performance and Review**

The following observations are made.

- (a) Even though ability to enroll about 300 students for 10 courses conducting in the University College, only 245 students had been enrolled in the year under review. Out of that, 38 students had been dropped out of the courses.
- (b) Two lecturers had been recruited each for other 08 courses except 2 courses and a sum of Rs.2,425,050 had been spent for the visiting lecturers for the year under review. However, according to the examination results released in the year under review, decrease in the percentage of passing examination relating to certain subjects was observed and according to the sample test check that the percentage of passing examinations of the students was ranged between 10 per cent to 66 per cent relating to 20 subjects.
- (c) Even though provisions totalling to Rs.29 million had been approved in 02 instances for 10 activities for the year under review under Skill Development Sector Project, only Rs.15,669,696 had been granted by the Project during the year. However, it had been spent exceeding the provisions allocated for 2 activities and plans had been made and a sum of Rs.1,450,000 spent for the purchasing of accounting software and repairing the ceiling of the University College which was at an unprotected condition, those activities had not been fulfilled.

- (d) At the audit test check , the number of hours completed out of the lecture hours planned relevant to 18 subjects were ranged between 18 per cent to 45 per cent . Accordingly, it was observed that the lecture hours planned to be covered in respect of certain modules relating to the courses had not been completed by the lecturers. Nevertheless, 664 lecture hours had been received to the lecturers and a sum of Rs.795,050 had been spent for that purpose. It was problematic in audit that whether an adequate knowledge had been received to the students for the subject and the quality of the course due to the planned lecture hours had not been completed .

4.2 **Management Activities**

The following observations are made.

- (a) Out of 737 T-shirts valued at Rs.449,938 received to the University College on 27 April 2015 for the distribution among the students under Skill Sector Development Project, 337 T-shirts valued at Rs.205,738 had been remained in the stores without issuing even by 26 February 2018, the date of audit.
- (b) Even though plans had been made to release the examination results within a minimum of one month period which was conducted at the end of the Semester, the Board of Control of the University College had failed to release the examination results conducted in the years 2016 and 2017 to the planned date . The delay of releasing results ranged between 03 months to 12 months. Existing a big delay of returning of answer papers by the members of the examiners panel had been caused for that delay. According to the test check, the said delay was ranged between 03 months to 08 months by 31 March 2018 ,the date of audit. However, payments had been made to the internal lecturers for the examination of answer papers and the duty leave also had been approved for the lecturers for that period.
- (c) Attention of the management had not been paid up to now for the recovery of Rs.102,908 for the loss of the digital multimeter valued at Rs.125,000 which was misplaced in the year 2016.
- (d) Action had not been taken to vest the legal possession of the land of 03 roods and 3.9 perches in extent which the University College is being maintained to the University College and made assessments the value of land and to account by the end of the year under review .

4.3 **Cadre Administration**

The following observations are made.

- (a) A scheme of recruitment had not been approved for the recruitment of the other posts except for the posts of Chief Executive and the Probationary Lecturer of the University College and the recruitments had been done according to the scheme of recruitment of the Vocational Technical University. However, two officers had been recruited without a scheme of recruitment for the posts of English Instructor and the

Maintenance Technician which are not included in the scheme of recruitment of the Vocational Technical University as well.

- (b) Action had not been taken to confirm the qualifications of four officers of the University College from the relevant Institution according to the scheme of recruitment.
- (c) In terms of the scheme of recruitment, in the recruiting probationary lecturers , it had been stated that first or second class upper degree should be existed in respect of the subject to be taught or if it is a degree other than the relevant subject, a postgraduate degree with 2 years research thesis relevant to the subject area should be existed. However, 4 lecturers had been recruited with degrees not related to the relevant subject area in the year under review and the preceding years for the courses such as Case Management, Electrical Technology, Cosmetology and Television Programme Technology conducted by the University College. Those lecturers had not been completed the postgraduate qualification to be existed in terms of the scheme of recruitment.
- (d) The qualifications to be eligible according to the scheme of recruitment of the lecturer with a foreign degree who recruited on 01 June 2016 for the Telecommunication Technology course had not been confirmed by the relevant Institution and it had not been confirmed that whether the said University is accepted by the University Grants Commission.
- (e) The relevant information for the confirmation of the qualifications to be existed according to the scheme of recruitment of the lecturer who recruited for the course of Food Technology on 01 November 2014 was not presented to audit.
- (f) A lecturer in the University College had been proceeded abroad to follow a postgraduate degree and a sum of Rs.40,000 had been paid for that lecturer by the University College as the course fees for a course conducted by the University of Sri Jayewardenapura. However, attention had not been paid for the recovery of those money as the said lecturer had not been completed the said course at the time of proceeding abroad.

5. **Sustainable Development**

5.1 **Achievement of the Sustainable Development Goals**

All Public Institutions should be followed In terms of the letter No.NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policy and Economic Affairs and the “Agenda 2030 “of the Sustainable Development of the United Nations . However, the University College had not been aware how to come into operation relating to the duties come under the scope of the University College relating to the year under review. As such, action had not been taken to identify the sustainable development goals and targets relating to duties of the University College and the landmarks for reach the targets as well as the indicators for reaching targets.

6. Accountability and Good Governance

6.1 Audit Committees

An Audit Committee had not been established in terms of Section 7.4.1 of the Public Enterprises Circular No.PED 12 dated 02 June 2003.

6.2 Procurement and Contract Procedure

6.2.1 Procurements

The following observations are made.

- (a) In terms of the guideline 6.2.2 of the Government Procurement Guidelines 2006, a minimum period of 21 days should be maintained for the calling of National Competitive bids. However, an idle expenditure amounting to Rs.15,425 had been incurred for publishing a revised newspaper advertisement as the number of dates was 19 in the procurement notice published on 09 April 2017 for the purchasing of furniture and equipment for the laboratory .
- (b) Even though in terms of guideline 5.6 of the Procurement Guidelines the draft specifications should be included in the bidding documents, contrary to that ,goods valued at Rs.1,631,421 had been purchased in 05 instances during the year without being decided.
- (c) In terms of guideline 2.6.1 of the Procurement Guidelines, the bidding documents prepared by the Procurement entity should be review and approved by the Technical Evaluation Committee. However, bidding documents totalling Rs.1,002,062 used for the procurement procedure in 4 instances had not been focused on the examination of the Evaluation Committee due to the Technical Evaluation Committee had been appointed after issuing of bidding documents.
- (d) In terms of guideline 7.8.4 of the Procurement Guidelines, technical specifications of critical nature should be considered as major deviations . However, a Duplo Machine at a value of Rs.541,650 had been purchased on 19 December 2017 without proper evaluation of the technical specifications and contrary to the specifications presented .
- (e) Despite appointing the members to the Committee on Opening Bids had been done on 09 December 2017, bids had been opened on 06 December 2017 in the procurement procedure amounted to Rs.1,128,840 relevant to renovation of the Cosmetology Laboratory and fixing of equipment belonging to the University College.

- (f) Bids had been called by the University College for the cleaning service. Even though, the institute which had been presented the minimum bid was conducted the cleaning service in the University College at that time, the said bid had been rejected due to the service of the said institution was unsatisfied. Further, the second bid amounting to Rs.1, 706,400 also had been rejected by stating that the information given in respect of the chemical and other equipment was not comprehensive and detailed in the registers of the Institute which the second minimum bid presented, despite the relevant specifications had not been included in the bidding documents by the University College. However, the contract had been awarded to the Institution which the maximum bid of Rs.2,651,100 presented.

7. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director 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 -----
(a) Accounting	Failure to prepare paying vouchers properly, action had not been taken to maintain accounts books and registers in an updated manner.
(b) Assets Management	Accounting of assets and registers had not been maintained.
(c) Recruiting the staff and administration	Recruitment of the staff had not done properly and files had not been maintained in an updated manner.
(d) Contract Administration	Action had not been taken according to the provisions of the Procurement Guidelines.