

## **University College of Kuliyaipitiya – 2017**

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The audit of financial statements of the University College of Kuliyaipitiya 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 and Direction+ 17 (2) of the Vocational Technology University College Ordinance No. 01 of 2014 of the Notification published in the Gazette Extraordinary No.1882/51 of 03 October 2014 . My comments and observations which I consider should be published with the Annual Report of the University College in terms of Section 49 (1) of the Universities of Vocational Technology Act appear in this report.

### **1.2 Management’s Responsibility for the Financial Statements**

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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**

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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 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 College’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 College’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**

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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 College of Kuliypitiya Affiliated to the University of Vocational Technology 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 Accounting Deficiencies**

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The following observations are made.

- (a) Provisions had not been made in the financial statements for the audit fees relating to the year under review.
- (b) The payable amount of Rs. 95,250 and Rs. 758,287 respectively had not been brought to accounts as at 31 December in the year under review for the preparation of a computer system for accounts and salaries and security services expenses.
- (c) Depreciation value of three assets items amounted to Rs. 242,758 had been overstated and depreciation value of three assets items amounted to Rs. 729,183 had been understated relating to the year under review. Because of that the deficit of the year under review and the net value of the property plant and equipment had been overstated by Rs. 486,425 .
- (d) Although the advances amounted to Rs. 9,165,000 had been paid to the Department of Buildings for the development of the buildings in the year under review without calculating the value of work-done of the constructions the advance had been totally capitalized.

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

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

<b>Reference to Laws, Rules, Regulations</b>	<b>Non-compliances</b>
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(a) Treasury Circular No. IAI/ 2002/ 02 of 28 November 2002	A Register of fixed Assets had not been maintained in respect of the computer accessories and software.
(b) Section 09 of the Management Services Circular No. 02/ 2016 of 25 April 2016	Calculation of gratuity had not been made based on the salaries prepared as per the new salary circular.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the University College for the year ended 31 December 2017 had been a deficit of Rs. 2,232,107 as against the surplus of Rs. 1,912,306 for the preceding year thus indicating a deterioration of Rs. 4,144,413 in financial results in the year under review as compared with the preceding year . Even though the recurrent grants had increased by Rs. 5,049,950 in the year under review as compared with the preceding year the staff cost by Rs. 4,739,457 and service expenses by Rs. 5,103,643 had mainly attribute to the above deterioration.

In analyzing the financial results for the year under review and the preceding 02 years, although a deficit of Rs. 667,134 had occurred in the year 2015 , a suplus amounted to Rs. 1,912,306 had occurred in the year 2016 and a deficit of the organization amounted to Rs. 2,232,107 had occurred again in the financial results. However the employee remuneration, depreciation for the non-current assets was re-adjusted to the financial results, the contribution of the University College amounting to Rs. 44,459,974 in the year 2015, had continuously increased to Rs. 61,198,824 at the end of the year under review .

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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The following observations are made.

- (a) Even though an Action Plan had been prepared for the year under review in terms of Public Finance Circular No. 1/ 2014 of 17 February 2014 the approval of the Board of Governors had not been obtained.
- (b) Even though an Annual Procurement Plan should be prepared at the beginning of the financial year in terms of National Budget Circular No. 128 of 24 March 2006 , the procurement Plan relating to the year under review had been prepared on 11 October 2017 .

#### **4.1.2 Activity and Review**

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Out of the 563 students who sat for 03 examinations conducted for 08 courses the number of students ranged between 04 per cent to 68 per cent had got through all the subjects in the years 2016 and 2017 . Further, 26 students sat for the Foundation Examination of the Travel and Tour Management Course conducted in the month of July 2016 included in above courses had failed all the subjects.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Since the accurate specifications and the number of security officers required for the day and night shifts were not identified accurately a sum of Rs. 585,612 had been paid more than the agreement amount by the September in the year under review and a sum of Rs. 758,287 had been in payable further when calling quotations for the security service of the College.
- (b) The land area of the College located in extent 5.4 hectares had not been properly acquired and the constructions and the modernizations amounted to Rs. 9,165,000 had been made in the year under review.

#### **4.3 Transactions in Contentious Nature**

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Even though the quotation had been called from 07 institutions under the market price system for the establishment of a computer system in respect of accounts and salary payment, the quotations had only received from 02 organizations. Without submission of acceptable reasons thereon the Technical Evaluation Committee had refused the lowest price and the purchase had been made for Rs. 539,750 .

#### **4.4 Idle and Under- utilized Assets**

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The following observations are made.

- (a) As a result of a function error in the equipment amounted to Rs. 1,435,000 received on 24 March 2015 to the Wheel Alignment Division of Motor Vehicle Technology Course amounted to Rs. 1,435,000 it was observed that, that equipment had been in idle about 03 years period at the date of audit 28 March 2018 . Even though the relevant agency had checked the equipment it could not be converted to the usable condition. It was observed that the relevant equipment being in idle had affected the practical trainings of the students.
- (b) Due to lack of proper operation the Say Bolt Viscometer Apparatus which had received at cost of Rs. 312,000 to the Construction Technology Laboratory on 01 January 2015 , it was observed that the needed practical trainings should have been taken from the private organizations at the date of audit 28 March 2018 .

#### **4.5 Staff Administration**

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Six Lecturers and two Demonstrators in the academic staff and two Management Assistants in the non-academic staff, one Maintenance Technician, and two Lab Assistants had fallen vacant in the College. Further, as a result of non-availability from the April and November 2016 for the Farmers and Machinery Course and Construction Technology Course it had been impossible to conduct those courses as due.

### **5. Sustainable Development**

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#### **5.1 Achieving of the Objectives of Sustainable Development**

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In terms of the the Circular No. NP/SP/SDG/17 of 14 August 2017 issued by the Secretary of National Policy and Economic Affairs and the United Nations year 2030 “Agenda” for Sustainable Development , the College had aware of the activities entitled to the scope itself and following matters were observed in this connection.

- (a) Even though the goals under the certification of perfect, fair, quality education and providing learning opportunities to all over the life time when identifying the sustainability objectives and goals , poverty alleviation was the identified objective. Further, indicators for measuring identified objectives and goals had not been identified and based years and based data had not been identified.
- (b) Due to the scarcity of qualified human resources and physical resources the Action Plans for achieving the objectives and goals had not been prepared and the awareness through awareness programmes or circulars identifying the related parties thereon had not been made by the College during the year under review.

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

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#### **6.1 Internal Audit**

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Although according to the Paragraph 03 of the Guidelines No. DMA/ 2009 (1) dated 09 June 2009 of the Department of Audit and Management, an Internal Audit Unit should be established, action had not been taken to set up such a unit even after the 03 years had lapsed from the commencement of the University College.

#### **6.2 Audit Committees**

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An Audit Committee had not been appointed in terms of Paragraph 7.4.1 of Public Enterprises Circular No. PED/ 12 of 02 June 2003.

### **6.3 Procurement and Contract Process**

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#### **6.3.1 Procurements**

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The following observations are made.

- (a) The procurement decisions had been given exceeding the limitations by Rs, 1.5 million at the purchases amounted to Rs. 5.5 million while carrying out procurements and the same purchase had divided in to 8 instances for the deviations from the exceeding the approved limitations of the Procurement Committee of the College
- (b) Three contracts amounted to Rs. 11,142,000 had been provided to the Department of Buildings in the year under review without the approval of the Board of Governors of the University of Vocational Technology or the Ministry of Skills Development and Vocational Training out of the procurement process . Similarly, since the agreements not signed for that, it was impossible to disclose the period to be completed each construction definitely.
- (c) Purchasing of furniture equipment amounting Rs. 6,179,821 and the laboratory equipment amounted to Rs. 6,668,599 carried out by calling quotations in the month of September 2016 had occurred in delay up to October 2017.
- (d) As incurring a sum of Rs. 3,885,963 for 03 furniture and equipment purchases based on the provisions amounted to Rs . 2,300,000 granted from the skills Development Project , the relevant approval had not been obtained in respect of exceeding the estimated cost by Rs. 1,585,963 .

### **6.4 Budgetary Control**

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The following observations are made.

- (a) Even though the Budget should be prepared and furnished for the approval 03 months before the financial year commenced in terms of Paragraph 5.2 of the Public Enterprises Circular No. PED/ 12 of 02 June 2003, the Budget had been approved on 10 December 2016 .
- (b) Variances from 09 per cent to 125 per cent between the estimated and actual expenditure in 23 expenditure items were observed .

## **7. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Director of University College from time to time. Special attention is needed in respect of the following areas of systems and control.

**Areas of Systems and Controls**

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**Observations**

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**(a) Accounting**

- Journal Entries not posted to the Ledger accounts and not balanced the Ledger accounts.
- Non- maintenance of the Register of Fixed Assets.
- Revenue and ExpenditureCode numbers not correctly entered .
- Approvals not taken for 137 Journal entries made during the year including opening balances.

**(b) Personnel Administration**

Actions not taken to fill the vacancies.

**(c) Control of Operations**

Courses not completed within the specific periods and actions not taken to provide sufficient practical training to the Students.